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ABSTRACT

This manual is designed to assist in developing meaningful workshops for retirees and pre-retirees to aid them in making effective use of their retirement incomes. Divided into five sessions, topics include the need for financial planning, major factors in such planning, and specific methods of helping retirees in their own financial planning; estimating retirement expenses and retirement budgets through inflationary years; legal problems including wills, estate planning, and making provisions for incapacity; and taxes and insurance. The objectives, methodology, time required, materials needed, and suggested readings are outlined for each session, and lecture materials for each topic are included. (Author/MBR)

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FINANCIAL PLANNING

for

RETIREMENT

A Training Manual

prepared for

The N.C. Governor's Coordinating Council On Aging

Bernice B. Hopkins

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The University of North Carolina

Chapel Hill, N. C.

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INTRODUCTION

With the diminishing purchasing power of the dollar, it becomes urgent for older adults to acquaint themselves with various and sometimes optional ways of managing their incomes so that they receive the maximum benefits from whatever financial resources they may have. Persons working in the field of aging are in a good position to counsel both those who are already retired and those about to retire. This can be done through workshops, seminars, and group counseling situations as well as individual counseling.

Most individuals receive reduced income upon retirement. About twenty percent of all retirees have only their social security. With costs rising for many fixed expenses (housing, food, heat, light, telephone, clothing, transportation, etc.), the financial hardships are multiplying rapidly. Any added burden, such as medical expenses, intensifies the problem further. Therefore, every possible means of extending the dollar for a better retirement must be explored.

This training manual is designed to assist a project director or workshop planner in developing informative and meaningful workshops, and other means of aiding and counseling retirees and pre-retirees, to make the most effective utilization of their retirement incomes. The topics include not only income planning and budgeting, but income understanding and management of pensions, savings, investments, social security, medicare, taxes, insurance, and legal problems, such as wills, estate planning, and provisions for incapacity.

There are five sections in the manual. Each section is a detailed plan for a two-hour workshop. To facilitate relaxation and casual discussion, a coffee break is planned at approximately the midpoint of each session.

At the beginning of each session, the workshop leader should summarize briefly the highlights of the previous sessions and then provide a brief overview of the topics and plans for the current session. In addition, he should provide the necessary introductory and transition remarks, should lead the question and answer sessions (with participants providing most of the questions and answers), and, in general, should keep each session moving on the time schedule suggested in the manual. Texts on each subject are included. Maximum group participation is proposed for the workshop, using various methods of problem-solving exercises and discussion periods (mainly questions and answers).

Throughout the workshop, a special emphasis is placed on exercises designed to teach the participants "how to" determine the best possible answers to specific questions, particularly those questions that apply to the various aspects of their own retirement planning. For example, "How much social security in-

come will I receive, if I retire at age 65?" "What is my normal life expectancy?" "How much money should I have in an annuity to provide \$100 per month for life?" Or, "How long will my savings account last if I use a given amount each month for living expenses?"

To the extent that the various learning objectives and competency criteria are specifically stated, this workshop is designed to develop specific competencies on the part of all participants. In general, these are the competencies needed by elderly persons if they are to plan wisely for their own retirements. Different levels of competencies are required. In some cases, the specific competency is just simply "knowledge"; in others, it is "comprehension" and "understanding"; but in some the specific competencies indicated are those involving the "how to" of individual problem solving. To a large extent then, this manual is a guide to a competency-based workshop on the financial aspects of retirement planning.

I. SESSION ONE: INCOME PLANNING FOR RETIREMENT

A. Overview

1. Purpose: To help the trainee develop important understanding of: (a) the need for financial planning for retirement years, (b) the major factors to consider in doing such planning, and, (c) specific methods of helping retirees (and pre-retirees) in their own financial planning for their own retirement.
2. Objectives: To develop an understanding on the part of the trainee of the importance of:
 - a. Estimating the number of years of life expectancy as an initial basis for individual financial planning; and, how to make these estimates;
 - b. Inflation as a factor in the financial planning for retirement, and how to calculate the estimated effects of inflation on the value of future incomes;
 - c. The Social Security System and how to estimate future Social Security income
3. Methods:
 - a. Introductory and orientation remarks by workshop leader;
 - b. Presentation of tables and other resource information to provide the bases for group exercises in seeking specific answers to specific questions or problems routinely faced by retirees (or pre-retirees);
 - c. Group discussion; and
 - d. Concise summary statements by group leader
4. Time Required: Two hours
5. Materials Needed:
 - a. Work pads and pencils for trainees
 - b. DHEW publication No. (SSA) 74-10047 for each trainee, "Estimating Your Social Security Retirement Check", published by U. S. Department of Health, Education and Welfare; Social Security Administration, February 1974. These can be obtained from your Social Security office.
 - c. Overhead projector and transparencies of pertinent Tables in this monograph (optional)

6. Suggested Readings:

- Gordon, Margaret S., "Aging and Income Security in the United States: Thirty-Five Years After the Social Security Act." Gerontologist, 1970, 4, 23-31
- Gordon, Margaret S., "Aging and Income Security," in Clark Tibbitts (Ed.) Handbook of Social Gerontology, University of Chicago Press, Chicato and London, 1960
- "Overhaul of the Social Security System," U. S. News and World Reports, February 17, 1975
- "Secret of Successful Retirement Planning," NRTA Journal, July-August 1973
- "Take Your Social Security Early, on Time, or Late?" Changing Times, the Kiplinger Magazine, June 1975

B. Changing Patterns of Retirement and Need for Financial Planning

Retiring at a mandatory age is a twentieth-century phenomenon. Never before in the history of civilization has there been such an abrupt end to the formal work period of life. Our parents and grandparents kept working as long as they were physically able to do so.

Of course, the change from an agrarian society to an industrial society has been a large factor. Likewise, the increase in life expectancy has been an equally important factor. In 1900, only 4 percent of the population was over 65 years of age. Today, slightly over 10 percent of the population is over 65 years of age. In 1900, the life expectancy was approximately 50 years. Now, it is better than 70 years. That is a 40 percent increase in life expectancy.

The question is often raised, "Why is age 65 regarded as the retirement age?" Any such age - whether 60, 65, or 70 - would be somewhat arbitrary. Setting 65 as a retirement age is usually attributed to Bismarck of Germany. It is said that much pressure was being brought to bear upon Bismarck to establish an old age pension. He asked his advisers to figure out the age that few enough persons would still be living that the government could afford to put them on a pension. Age 65 was the decision and became a public policy in 1883 in Germany.

If our government today applied Bismarck's formula, and if the life-span in Germany and the United States were the same, an individual would need to be at least 91 years of age before he or she would be eligible for retirement benefits. This is based on the 40 percent increase of the life-span from 50 to 70 years of age, which, in turn, would increase the present retirement age of 65 by 40 percent. Thus, the age of 91 would be the minimum present equivalent, not including the period between 1883 and 1900 for which this writer does not have pertinent life-span data.

With the passage of the Social Security Act in 1935, our nation took its first step toward social insurance. Had it not been for the depression of the 30's, social security might have been delayed much longer. There was widespread opposition to any kind of social insurance in this country, because it was feared such programs would discourage thrift and self-reliance. In our society, people often have a feeling of guilt if very much of their time is spent in leisure activities. This is a hangover from Puritan days, when hard work was considered the most meaningful way to spend one's life, and idleness was considered almost a sin.

Since a prolonged period of retirement has become an integral part of the American life style, ideally a wage earner should develop an income plan when he or she starts working on his or her first job. The first step is taken as a matter of course, when social security is withheld from one's first pay check. The next steps usually include the purchase of life insurance and payments on a home. Not until one is middle-aged, does the average person usually take stock of his financial status in relation to retirement. Ordinarily, this coincides with the completion of the rearing and education of children. Often, it is the first time when extra funds can be set aside for retirement purposes.

If one could know how long his life would be, what retirement expenses to expect, and the prospective effects of future inflations and depressions, it would be possible to make a fairly complete financial plan for one's retirement. This would be ideal. One could live in such a way that on the last day of life one could use up the last dollar.

We are not that lucky, or perhaps unlucky. Not knowing exactly what to expect, does leave one in a dilemma. The best one can do is to make educated or informed estimates, based on the excellent tables provided by insurance companies, the federal government, and others. We can plan as if we were "the average" retiree, and then allow for contingencies or for other known facts - such as health.

One must approach the problem systematically, by making inventories of assets and by projecting budgets. Those who blindly think that social security or pension plans will be adequate, may be surprised to learn that these plans alone will not always provide a comfortable retirement.

Knowing that one will have to live on reduced income in retirement, may not be as dismal as it first appears. Many expenditures will have been reduced or eliminated entirely by retirement. If one has children, they are usually self-supporting before one retires and their education expenses are usually completed. House mortgages are stabilized or paid off. The need for a larger house has passed. Other expenses will be reduced. Transportation to and from work will be eliminated and clothing costs reduced. Eating lunches at home saves money. One will have more time for comparative shopping and less need to buy convenience or "time-saving" items. Many payroll deductions will cease, such as social security, company retirement plans, employee life insurance, and so on. Income taxes will be less, not only because of reduced income, but because there are extra income tax deductions for persons 65 and over.

C. Estimated Life Expectancy as One Basis for Financial Planning

Although financial planning for retirement may seem complex and tedious, it is important to assemble as much information as possible, in order to develop a systematic approach to the problem; and the problem should be approached systematically. This is essential because so many aspects of financial planning for retirement are interrelated. The first step is to have some idea of one's normal life expectancy. For how long a period should you plan? Fortunately, insurance companies and others have prepared mortality and life expectancy tables. From these figures, based on average life expectancies beginning at specified ages, one can calculate the minimum time span for which a financial plan should be developed. Obviously, some individuals will live longer, and some will not live as long; but one should at least plan for one's normal life expectancy and, if possible, contingencies should be built into the plan (e.g. Social Security income is for life). Table 1 provides the basis for this calculation.

D. Increases in Cost of Living Based on Inflation

Inflation (the rising cost of living) is a specter which especially haunts everyone on fixed incomes, and this includes most retired persons. Many persons have skimped and saved in order to build up a savings account for old age. Such an account is, of course, very desirable, but it is fixed in value and is subject to the multifarious effects of inflation.

Money is simply a medium of exchange. As prices increase, the purchasing power of the dollar decreases. That is inflation. If one puts \$100 in an insured savings account and leaves it there for 20 years, there will still be \$100 plus the interest which has accumulated over the years. Although the number of dollars do not decrease, their purchasing power may. This is why it is so important to protect oneself as much as possible against a decline in the value of money. This is called hedging against inflation.

Although it is possible to have a period of deflation, in which case the purchasing power of one's money increases, this is not a likely trend. For over 100 years there has been a fairly steady decline in the purchasing power of the dollar. The only exception was during the depression of the 1930's.

After determining one's normal life expectancy, the next step is familiarizing oneself with the effects of inflation and learning how to revise income needs, based on present estimates of inflation.

E. The Social Security System

Concern with the plight of older persons has been apparent for more than 3000 years, but only in the last generation (in this country) has the movement taken the form of organized action. With the passage of the Social Security Act in 1935, our nation took its first steps in social insurance, setting age 65 as the normal retirement age. The idea behind the government's old-age plan in the 1930's was that workers should pay for pensions out of their wages.

Let's now turn back the clock to the Social Security Act of 1935 and the factors that brought it into reality.

Margaret Gordon tells us the relief policies of the American Colonies were modeled after the Poor Laws of Elizabethan England. These policies authorized a tax on inhabitants of the parish to provide funds for relief of the poor. The spirit of administration was restrictive and punitive; relief was meager.

Toward the end of the nineteenth century, social scientists led the way to a more enlightened view of the causes of poverty in a modern industrial society. The first modern social insurance measure was enacted in Germany in 1883. The idea of social insurance spread to other European countries and to a few countries in other parts of the world. By 1935, when the American Social Security Act was passed, 23 countries had compulsory health insurance laws, 20 had old-age insurance systems, and 10 had compulsory unemployment insurance programs.

The great depression of the 1930's overcame the widespread opposition to social insurance in the United States. There had been a fear that such programs would discourage thrift and self-reliance. Ours was a Puritanical society deeply imbued with Puritanical standards of hard work. A few early starts had been made by trade unions, the American Express Company, and the railroads. By 1928, only six states had enacted old-age assistance laws. California was the first to make old-age assistance programs mandatory upon the counties, and to provide state assistance.

Mounting unemployment was putting an impossible burden on local relief agencies. In June 1934, President Roosevelt appointed a Committee on Economic Security, headed by Secretary of Labor, Frances Perkins, to draw up recommendations for a social security program. The Social Security Act of 1935 was intended to provide monthly benefits to retired, aged workers and lump-sum death benefits. Today, it is considerably broadened in both scope and coverage. However, the system is not intended as a substitute for private savings, pension plans, and insurance protection.

It has been 35 years since the first benefit checks were written. The U. S. Social Security System has grown into the largest cash-disbursing operation in the world, but it is beginning to see financial troubles ahead.

For the first time since Social Security was enacted, a deficit will occur in the 1975 calendar year. Also, the long-range financial requirements of the system will be larger than earlier projections indicated, according to the recently released annual report. At the beginning of 1975, Social Security had \$46 billion in trust funds. This amount could sustain the system into the early 1980's. When Congress, in 1972, decided to increase retirement benefits automatically as inflation increased, the spiraling rate of inflation had not been anticipated. Already, corrective action is being studied by the House Ways and Means Committee and the Senate Finance Committee.

The deficit this year was caused mainly by two factors: Runaway inflation which triggered an automatic eight percent increase in cash benefits paid in July 1975, and decreases in Social Security taxes collected from employees and employers. The nation's high unemployment rate was the principal cause of the latter, although the decline in the birth rate with the consequent decline in number of young workers has had a marked effect too. The current ratio of 30 retired persons per 100 taxpayers could rise to 45 per 100 by the year 2030.

Let's look at present-day Social Security as reported by HEW for 1974:

- Nine out of ten workers in the U.S. are earning protection under Social Security
- Nearly one out of every seven persons in this country receives monthly Social Security checks
- Nearly all of the nation's 23 million people, 65 and over, have health insurance under Medicare. Another 1.7 million disabled people under 65 have been covered by Medicare since July 1, 1973.

Social Security, at first, covered only the worker when he retired. In 1939 the law was changed to pay his survivors as well as certain dependents. When the program began, only workers in commerce and industry were covered. In 1950 coverage was extended to include most self-employed persons, most state and local employees, household and farm employees, members of the Armed Forces, and clergymen.

Disability insurance was added in 1954, and Medicare was enacted in 1965.

In the past seven years, monthly Social Security benefits have more than doubled; and the 1972 legislation automatically increases Social Security benefits as the cost of living goes up. Although, as mentioned above, Congress is considering an annual limitation of five percent, as one possibility for keeping the Social Security System on a solid financial basis.

Retirement checks may start as early as age 62; disability checks may start at any age a worker is shown to have a lasting, severe physical or mental condition which prevents him from working. Survivors' checks may go to certain members of the worker's family.

Monthly payments may be made to a retired or disabled worker's:

- Unmarried children under 18 (or 22 if full-time students)
- Unmarried children 18 or over who are disabled
- Dependent spouse 62 or over
- Wife under 62 if she is caring for worker's child under 18 (or disabled child)

Monthly payments may be made to a deceased worker's:

- Unmarried children under 18 (or 22 if full-time students)
- Unmarried children 18 or over who are disabled
- Widow or dependent widower at age 60
- Widow or widower under 60 if dependent is caring for children
- Dependent parents 62 or older
- Divorced wives, if the marriage lasted 20 years or more

Before you can qualify for a Social Security retirement check, you must have credit for a certain amount of work under Social Security. No one ever needs more than 10 years of work; for some, it is fewer. For example, anyone who reaches 62 years of age this year needs only 6 years credit for work.

For personal information about Social Security benefits, call your nearest Social Security office. The telephone is listed in your telephone directory, usually under U. S. Government, and is usually toll-free. One should try telephoning first, because most questions can be

answered this way. A telephone call saves transportation costs as well as a possible lengthy wait at the Social Security office.

Application for Social Security should be started about three months before retirement. The applicant will need his Social Security number, proof of age, marriage certificate, and a copy of his last income tax return if applying for retirement benefits.

F. Estimating Social Security Income

One should remember that Social Security is the basic method in this country for income maintenance in the event of a worker's retirement, disability, or death. Anyone who has worked in a job covered by Social Security should keep in mind the protection that has been earned. One should also compare the kind of return from Social Security with other forms of investment to appreciate fully the protection and return which Social Security offers.

Not long ago an interesting news story appeared about the first woman to receive a Social Security check. She was 100 years old when she died. Her first check came January 31, 1940. It was for \$22.54. Her last monthly check was for \$109.20. She had received more than \$20,000 over the last 34 years, for which she had contributed about \$22 to the program. It is a rare investment, indeed, that could match that rate of return. But, one should keep in mind that Social Security is a social insurance program, not an investment program.

Everyone should periodically check to see if one's records are accurate with the Social Security Administration. This can be done by asking for a card entitled "Request for Statement of Earnings", Form OAR-7004 (12-64) which can be obtained from your nearest Social Security office. It is already addressed; simply fill out the form and mail. Allow about six weeks for an answer. Anyone who has had frequent changes of jobs should do this about every three years, because it is difficult to correct errors after the three-year limitation.

G. Suggested Procedures, Competency Criteria, and Time Allocations for Session One

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
1. Orientation	1. Brief presentation by group leader of plans for Session One*	No measurement expected	5
2. Estimating the number of years of life expectancy as initial basis for financial planning for retirement, and how to make these estimates	1. Explanation by group leader of objective two, including interpretation of Table 1 2. An exercise: Ask each participant to calculate his own life expectancy from Table 1 (if a participant is not within the illustrated age range, make same calculation by giving himself an arbitrary age that is included in the Table) 3. Group leader will stress fact that some individuals will not live as long as the Table suggests, while others will live longer; but, point out importance of such information for planning	No measurement expected Each participant will be able to determine his own life expectancy; will appreciate the importance of this estimate, but will not attach any causal factors to the estimate	10

* To be preceded by a brief overview of the purpose, content, and format of the entire series of five workshops (see Introduction and previous text) 10 minutes

Table 1. Life Expectancy, by Current Age and Sex

Current Age	Expected Life Span (years)			
	Male, white	Female, white	Male, nonwhite	Female, nonwhite
55	19.5	23.8	18.1	20.9
56	18.7	23.0	17.5	20.3
57	18.0	22.1	16.9	19.6
58	17.3	21.3	16.4	19.0
59	16.7	20.5	15.8	18.4
60	16.0	19.7	15.3	17.8
61	15.4	18.9	14.8	17.3
62	14.8	18.1	14.3	16.7
63	14.1	17.4	13.8	16.2
64	13.6	16.6	13.3	15.7
65	13.0	15.9	12.8	15.1
66	12.4	15.2	12.4	14.6
67	11.9	14.4	12.0	14.0
68	11.3	13.7	11.6	13.5
69	10.8	13.1	11.2	13.0
70	10.3	12.4	10.8	12.5

Source: Life Tables: 1959-61, U.S. Department of Health, Education and Welfare, Washington, D.C.

Example: Bob Jones is a 57-year-old white male. What is the minimum suggested time span he should plan for:
 Answer: Enter Table 1 at age 57. Add 18 from Male, white column. (57 plus 18 equals 75).

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
3. Calculating the estimated effect of inflation on the value of future retirement incomes	1. Introductory comments, including an explanation of Table 2, by group leader	No measurement expected	10
	2. An exercise: First ask each participant to locate in Table 2 both the annual and cumulative cost of inflation, over a period of 10 years. Second, assuming a \$6,000 initial retirement income, determine the equivalent income needed during the 10th year, assuming that all items in the family budget will be inflated equally at 6% per year.	Each participant will be able to determine illustrative effects of inflation on the relationship between income and expenditures over a period of years; and will understand implications of these effects on financial planning for retirement.	10

Table 2. Increases in Cost of Living Based on Inflation

Year	4% Inflation		6% Inflation		8% Inflation	
	Annual Cost	Cumulative Cost	Annual Cost	Cumulative Cost	Annual Cost	Cumulative Cost
Today	\$1,000		\$1,000		\$1,000	
1	\$1,040	\$ 1,040	\$1,060	\$ 1,060	\$1,080	\$ 1,080
2	\$1,082	\$ 2,122	\$1,124	\$ 2,184	\$1,166	\$ 2,246
3	\$1,125	\$ 3,247	\$1,191	\$ 3,375	\$1,260	\$ 3,506
4	\$1,170	\$ 4,417	\$1,262	\$ 4,637	\$1,360	\$ 4,866
5	\$1,217	\$ 5,634	\$1,338	\$ 5,975	\$1,469	\$ 6,335
6	\$1,265	\$ 6,899	\$1,419	\$ 7,394	\$1,587	\$ 7,922
7	\$1,316	\$ 8,215	\$1,504	\$ 8,898	\$1,714	\$ 9,636
8	\$1,369	\$ 9,584	\$1,593	\$10,491	\$1,851	\$11,487
9	\$1,423	\$11,007	\$1,689	\$12,181	\$1,999	\$13,486
10	\$1,480	\$12,487	\$1,791	\$13,971	\$2,159	\$15,645
11	\$1,539	\$14,026	\$1,898	\$15,869	\$2,332	\$17,977
12	\$1,601	\$15,627	\$2,012	\$17,881	\$2,518	\$20,495
13	\$1,665	\$17,292	\$2,133	\$20,014	\$2,720	\$23,215
14	\$1,732	\$19,024	\$2,261	\$22,275	\$2,937	\$26,152
15	\$1,801	\$20,825	\$2,397	\$24,672	\$3,172	\$29,324

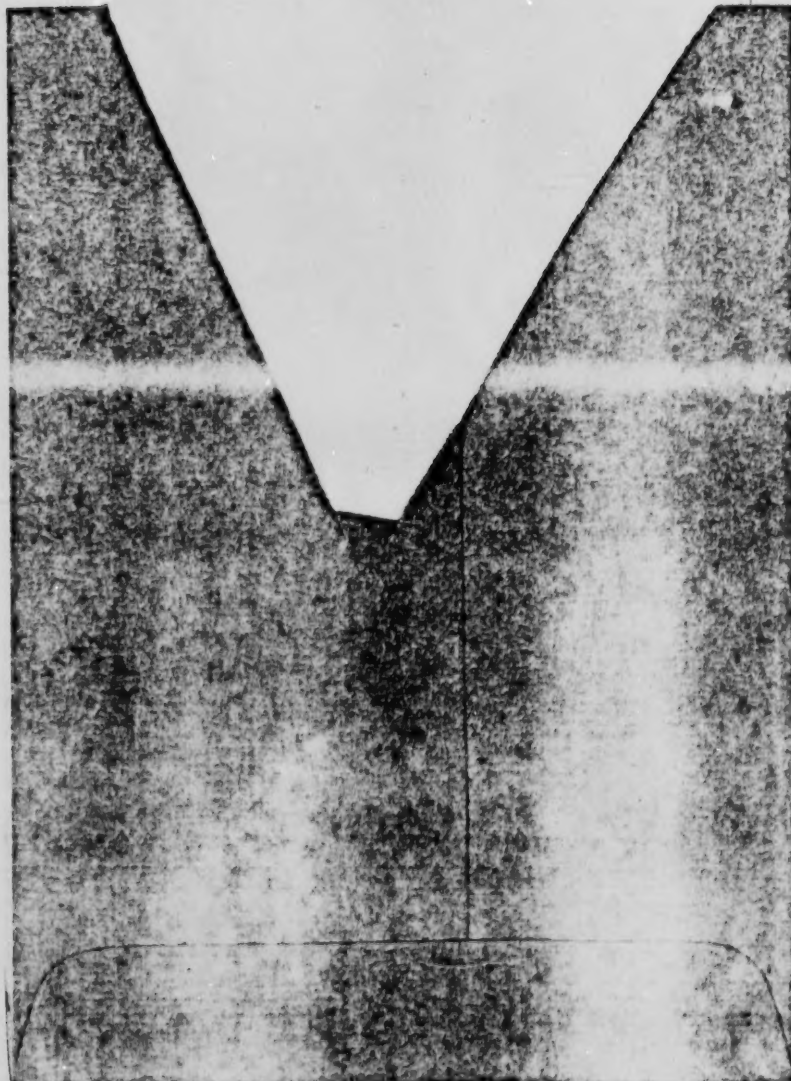
Source: Some Economic and Legal Aspects of Retirement, Circular 584, published by N.C. Agricultural Extension Service, September 1974.

Example: Bob Jones plans to retire next year. He and his wife now spend for current living expenses about \$7,000 per year. If they maintain the same standard of living, what will their annual living expenses be 5 years from now? How much money will they need for the next 5 years? Assume a 6 percent rate of inflation. Answer: Enter table at year 5, $\$1,338 \times 7 = \$9,366$ annual living expenses; total expenses for 5 years = $\$5,975 \times 7 = \$41,825$.

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
4. Relaxation and casual discussion	1. COFFEE BREAK	No measurement expected	10
5. Overview of Social Security System	1. Presentation by group leader, covering the history, purpose, and financial provisions of our Social Security System		20
6. Estimating Social Security Income	1. An exercise; Ask each participant to calculate his own (or an arbitrary case) of estimated Social Security income. Turn to instructions contained in DHEW Publication No. (SSA) 74-10047, and proceed from Step 1 through Step 8, with guidance and explanations by group leader. To the answer obtained in Step 8, add 8% for inflationary increase in 1975, and 5% (estimated) for each year after 1975. This is the best estimate of your anticipated Social Security income.	The accuracy with which each step is followed or calculated	35
7. To consolidate and to clarify participant learning	1. Questions and answers regarding entire session	Clarification of specific points	10
Total Minutes			120

Table 3. Estimating Your Social Security Retirement Check
DHEW Publication No. (SSA) 74-10047, February 1974

Estimating your
social security
retirement check



II. SESSION TWO: INCOME PLANNING FOR RETIREMENT (Cont'd.)

A. Overview

1. Purpose: Same as for Session One
2. Objectives: To develop an understanding on the part of the trainee:
 - a. of the possibility of converting life insurance policies into various kinds of retirement annuities;
 - b. of the various kinds of retirement annuities and their comparative strengths and weaknesses;
 - c. of how to calculate the amount of money needed (from life insurance policies or from other sources) required to purchase various kinds of annuities with various levels of monthly, quarterly, or annual income;
 - d. of the importance of savings accounts, and how to calculate the amounts needed in a savings account to provide monthly income of various amounts over varied periods of time;
 - e. of the sources and values of supplemental and indirect income during the retirement years;
 - f. of how to estimate one's net worth and of how to calculate the cash value of anticipated Social Security and other pension incomes; and
 - g. of how to estimate one's anticipated monthly retirement income
3. Methods: Same as for Session One
4. Time Required: Two hours
5. Materials Needed:
 - a. Work pads and pencils for trainees
 - b. Overhead projector and transparencies of pertinent tables in this monograph (optional)

6. Suggested Readings:

- "Annuities Can Stretch Retirement Money," Changing Times, The Kiplinger Magazine, September 1972
- Bland, David, "Retirement and Rehirement," Perspective, 1973, 3, 15-17
- Palmore, Erdman, "Compulsory Versus Flexible Retirement: Issues and Facts," Gerontologist, 1972, 4, 343-348
- "DO's and DON'Ts for Mature Job Seekers," (available from your local Employment Security Office)
- "How to Handle Your Assets," Modern Maturity, October-November 1972

B. Converting Life Insurance to Retirement Income

Often retirees have more life insurance protection than they need. This is more likely to be true after their children have completed their education and have left home. It may be more helpful to a retiree, or a retired couple, to convert the cash value of an insurance policy into regular payments of retired income. These payments are called annuities. An annuity will pay a specified amount of money at stated intervals for a fixed or contingent period, including the remainder of one's lifetime. The purchaser, or annuitant, pays a stipulated premium either in a single sum or in installments. This type of investment is especially good for a retiree because there is no surer way to have guaranteed income.

The retiree with life insurance policies that have built-up cash values should consult his insurance agent to consider the selection of an annuity plan which best fits his needs. Also, several agencies should be consulted and their plans compared to enable the individual to make the best choice. There are differences between annuity plans.

The North Carolina Agricultural Extension Service has published a booklet, entitled "Developing a Financial Plan" which lists and explains several types of "immediate" annuities offered by insurance companies. This booklet provides definitions of four different kinds of annuities, with some variations within kinds. These are as follows:

1. Life annuity - Purchased with a lump sum payment, this annuity pays monthly, quarterly, semi-annual or annual payments for the life of the annuitant. Payments cease upon the death of the annuitant. This annuity has the highest rate of pay since all payments cease upon the death of the annuitant.
2. Refund annuity - Purchased with a lump sum payment, this annuity pays monthly, quarterly, etc., payments for the life of the annuitant. If the annuitant dies before recovering all of his initial deposit, payments will continue to a named beneficiary until the original deposit is returned.
3. Life annuity with 10 or 20 year certain - Purchased with a lump sum, the annuity pays monthly, quarterly, etc. payments. If the annuitant dies prior to 10 or 20 years, payments are continued until the end of the specified period. If the annuitant lives beyond the 10 to 20 year period, payments are made until death.

4. Joint and survivor annuity - Purchased with a lump sum, the annuity makes monthly, quarterly, etc., payments. Payments are continued as long as either annuitant lives. At the death of the last surviving annuitant, payments cease.

- a. Joint and survivor refund - Purchased with a lump sum, the annuity makes monthly, quarterly, etc., payments. If both annuitants die before the initial deposit is recovered, the remainder is paid to a named beneficiary or the estate.
- b. Joint and survivor annuity with reduced income to the survivor - Purchased with a lump sum, the annuity makes monthly, quarterly, etc., payments. The contract guarantees payments as long as either annuitant lives. When one annuitant dies, the surviving annuitant receives payments equal to 50 percent, 60 percent, or 75 percent, etc., of the original payment as long as he or she lives. All payments cease at the death of the last annuitant. The percentage is negotiable with the company. This arrangement is based upon the fact that, generally, the survivor won't need as much income as was necessary when both annuitants were alive. (1)

C. Savings Accounts as Retirement Investments

One should always have a reasonable amount of money invested in such a way that one can obtain it quickly in case of emergency. This should be in the form of savings accounts or checking accounts or Government bonds. Most authorities recommend an amount equal to four to six months' income.

A person may want to start several years before retirement, say at age 50 or 55, to set aside regular amounts so that a predetermined amount will be available at age 62, or perhaps at 65. Tables are available to help in determining the approximate amount needed and the time schedule required to attain such goals.

(1) Some Economic and Legal Aspects of Retirement, Circular 584, published by N.C. Agricultural Extension Service, September 1974

D. Supplemental and Indirect Income

Here, we confront the decision of whether or not to work for supplemental income after going on Social Security. At this time, almost every retiree will have reduced income. The need to work usually stems from one or both of two basic reasons: First, supplemental income may be needed to maintain a personally acceptable standard of living. Second, most persons at age 65 are in reasonably good health. For some of these people, such activities as playing golf, traveling, raising flowers, playing cards, and other typical leisure-time activities will seem like a pastime, not a satisfying way to spend one's day. These people need to work for their own happiness; and, at the same time they can often make a worthwhile contribution to society. Their skills, their experience, and their know-how can be of great benefit to others, and perhaps to themselves.

Before discussing further the subject of extra income, one needs to understand its effect on Social Security benefits. A retiree may earn up to \$2520 (as of 1975) per year without having any Social Security benefits withheld. If annual earnings go above \$2520, one dollar in benefits is withheld for each two dollars earned above \$2520. No matter how much extra income is earned in one year, full benefits can be given during any month that not more than \$210 is earned in wages. After age 72 earnings do not affect Social Security checks. Also, income from savings, investments, pensions, insurance, or royalties do not affect Social Security payments.

At present, a worker who does not receive any benefits before 65, and who delays retirement past 65, will get a special credit that can mean larger benefits when they are received later. The credit adds to a worker's benefit one percent for each year (one-half of one percent per month) from age 65 to 72.

It should be pointed out that older workers have much more difficulty in getting other employment than younger ones. Whatever the reason for continuing work, this fact must be kept in mind.

There are many reasons why a retiree may need or want to earn money. For some, it may be something different from a regular job. It may be a desire to develop a small business or encourage a hobby that pays. It may be a desire to take special training in order to do a different kind of work. There are many possibilities to explore. Caution should be exercised because some so-called training programs may be a fraud rather than a worthwhile venture.

The possibility of Indirect Income should not be overlooked. Many older Americans overpay their taxes each year because they are unaware of helpful deductions which can save them precious dollars (see Session ~~Five~~: Taxes and Insurance). These are more likely to be overlooked than the more obvious additional exemption of \$750 for each elderly taxpayer over age 65.

Saving dollars or stretching dollars are an important part of retirement income, although indirect.

Other suggestions for indirect income are:

1. Learn to do many home repair jobs. More time often makes this a possibility.
2. Exchange services with others. One could do clothing alterations in return for beautician services, for example.
3. Learn to design Christmas or holiday cards, or better yet, give handmade gifts. These are often regarded as more precious - and are real money savers too.
4. Recycle clothes through thrift shops, or sell handicrafts through local specialty shops.
5. Reduced bus fares, lowered admission costs, and discount on drugs. All of these add up to a surprising difference.
6. File claims for Medicare and other insurance. Often a doctor, and sometimes a hospital, does not automatically do this. It then becomes the recipient's responsibility. This is also true of any insurance claim, not just health insurance. It is shocking to find elderly people who have kept up their premium payments, yet find it too much trouble to fill out a claim form, even though they have faithfully paid for just such an emergency.

E. Estimating One's Net Worth (or Equivalent) and Anticipated Monthly Retirement Income

As one approaches retirement, it becomes increasingly important to "take stock" of all of one's assets and to estimate, as accurately as possible, one's anticipated retirement income. Because of their financial inter-relationship and interdependence, these two assessments should be made at the same time, and together. This is essential because it may be both possible and necessary to convert one or more assets (real estate, cash value of a life insurance policy, or a savings account) into guaranteed retirement income. Or, if this is not necessary at the time of retirement, it is important to know that such a conversion might be necessary in the future and that, therefore, the particular assets concerned should be preserved for such contingency.

Another reason for making these assessments prior to one's retirement (or at retirement, if not made before) is not only to serve as the basis for the preparation of a realistic retirement budget (the topic of Session Three), but to understand and fully appreciate the "asset value" of future retirement income, such as Social Security and pensions. The values of these benefits are often underestimated in terms of one's assets. When one realizes that an anticipated Social Security income of \$300 per month (for a retiree at age 65) is almost the equivalent of \$50,000 in cash (provided that cash were used to purchase a life-time annuity for a retiree or a retired couple). From Tables which have been prepared (and reproduced in this manual) such conversion calculations can be made very accurately and very quickly.

F. Suggested Procedures, Competency Criteria, and Time Allocations for Session Two

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
1. Summary of subjects covered in first session	1. Concise summary by group leader	No measurement expected	5
2. Getting maximum returns from life insurance policies - converting life insurance to retirement income	1. Review and discussion of various kinds of annuities: a. Life annuity b. Refund annuity c. Life annuity with 10 or 20 years certain d. Joint and survivor annuity e. Joint and survivor refund f. Joint and survivor annuity with reduced income to the survivor	Each participant will have knowledge and comprehension of various kinds of annuities to meet various kinds of financial needs during retirement. Perhaps, even more important, each participant will develop a greater sense of the value of monthly pensions and Social Security payments.	10
3. Understanding the financial aspects of life-time annuities	1. With instructions by group leader, and from information contained in Table 4, each participant will calculate the amount of money (from life insurance or from other sources) required to purchase a life annuity, at age 65 that will pay \$75 per month for life.	Each participant will demonstrate to the group leader that he not only understands the purpose and principles of annuities, but that he can calculate for himself the amount of monthly income for life that he could produce for himself through the purchase (either outright or over a period of time) of annuities of various sizes.	10

Table 4. Amount Required to Purchase a Life Annuity Paying \$10 Monthly for Life

Age at Last Birthday	Male	Female
60	\$1,310	\$1,474
61	1,280	1,443
62	1,250	1,411
63	1,220	1,379
64	1,189	1,346
65	1,158	1,312
66	1,130	1,280
67	1,102	1,247
68	1,073	1,214
69	1,044	1,180
70	1,015	1,146

Source: Some Economic and Legal Aspects of Retirement.
Circular 584, published by N.C. Agricultural Extension Service,
September 1974.

Example: Sam Lane is 65 years old. How much will he have to spend to buy a life annuity which will pay him \$50 a month for the rest of his life? Answer: Enter Table 4 at age 65.
 $\$1,158 \times 5 = \$5,790 + \$75 \text{ contract fee} = \$5,865 \times 1.025$
(N.C. tax) = \$6,012.

Source: Same as above.

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
	2. With instructions from group leader, and from information contained in Table 5, each participant will calculate the amount of money (from life insurance or from other sources) required to purchase a joint and survivor annuity, at age 65, that will pay \$50 per month so long as either the husband or wife shall live.	Each participant will demonstrate, to the satisfaction of the group leader, that he can calculate the cost of a joint and survivor annuity, and what this would mean in terms of planning for stable income during the retirement years.	10

Table 5. Amount Required to Purchase a Joint and Survivor Annuity Paying \$10 per Month Income

Male's Age	Female's Age		
	3 years younger	Same age	3 years older
60	\$1,678	\$1,624	\$1,573
61	1,651	1,595	1,543
62	1,623	1,566	1,512
63	1,594	1,536	1,481
64	1,565	1,505	1,450
65	1,535	1,474	1,418
66	1,504	1,444	1,387
67	1,473	1,413	1,355
68	1,441	1,382	1,323
69	1,410	1,362	1,290
70	1,378	1,342	1,257

Source: Some Economic and Legal Aspects of Retirement. Circular 584, published by N.C. agricultural Extension Service, September 1974.

Example: Phil Barnes, aged 60, wishes to buy a joint and survivor annuity which will pay \$75 per month as long as he or his wife shall live. Mrs. Barnes is 60 years old. What is the cost of the annuity in this example? Answer: Enter Table 5 at male age 60; $\$1,624 \times 7.5 = \$12,180 + \$75$ contract fee = $\$12,255 \times 1.025$ (N.C. tax) = $\$12,561$.

Source: Same as above.

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
4. Understanding long-term value of savings accounts as a continuing source of retirement income	1. Group leader will introduce participants to the value of savings accounts, not only for emergency purposes, but to provide future retirement income.	No measurement expected	10
	2. Using Table 6, each participant will determine the amount that can be withdrawn from a \$4,000 savings account, paying 6% interest, compounded quarterly, if the monthly payments should continue for 10 years.	Participants will learn how to determine how much can be withdrawn monthly, from any particular savings account, when the monthly withdrawals are planned to last a specified number of years.	

Table 6. How Much Can Be Withdrawn Monthly from a \$1000 Deposit if the Deposit Is to Last a Specified Number of Years?

Years to Use Up Deposit	Interest Compounded Quarterly		
	5%	6%	7%
1	\$85.60	\$86.05	\$86.51
2	43.86	44.31	44.75
3	29.96	30.41	30.86
4	23.02	23.47	23.93
5	18.86	19.32	19.78
6	16.10	16.56	17.03
7	14.12	14.59	15.07
8	12.65	13.13	13.61
9	11.51	11.99	12.49
10	10.60	11.09	11.59
11	9.85	10.35	10.86
12	9.24	9.74	10.26
13	8.72	9.23	9.65
14	8.28	8.80	9.33
15	7.90	8.42	8.97

Source: R. S. Smith, Farmers and Retirement, Social Sciences Information Bulletin No. 5, New York State College of Agriculture, Cornell University, January 1971.

Example: Henry Aaron has \$5,000 in an account earning 6 percent interest compounded quarterly. How much a month can he withdraw to make the \$5,000 last 12 years? Answer: Enter the table at year 12, $\$9.74 \times 5 = \$48.70$ per month.

Source: Same as above.

Specific Objective	Procedure	Competency Criteria	Time (Min.)
	3. Using Table 7, each participant will determine the amount needed in a savings account, paying 6% interest, compounded annually, to provide monthly income of \$50 per month for 15 years.	Participants will begin to realize and appreciate the value and importance of this kind of retirement planning.	10

Table 7. Amount Needed to Provide Monthly Income of \$100 for Period of Years: Principal and Interest Used Up. Interest Compounded Annually.

Years Income Needed	Interest Compounded Annually		
	5%	6%	7%
1	\$ 1,142	\$ 1,132	\$ 1,122
2	2,231	2,200	2,170
3	3,268	3,208	3,149
4	4,255	4,158	4,064
5	5,195	5,054	4,920
6	6,091	5,900	5,720
7	6,943	6,698	6,467
8	7,756	7,452	7,165
9	8,530	8,162	7,818
10	9,266	8,832	8,429
11	9,967	9,464	8,999
12	10,636	10,061	9,532
13	11,273	10,624	10,030
14	11,879	11,154	10,494
15	12,455	11,654	10,930

Source: R. S. Smith, Farmers and Retirement, Social Sciences Information Bulletin No. 5, New York State College of Agriculture, Cornell University, January 1971.

Example: Jane Smith is 62 years old. How much will she have to deposit in a 6 percent account to have \$100 per month retirement income for the next 12 years? Answer: Enter the table at year 12. An amount of \$10,061 will provide her with \$100 per month for the next 12 years. At the end of the 12-year period, the account would be exhausted. If Jane needs only \$50 monthly income, the amount she needed to deposit is $\$10,061 \div 2 = \$5,031$.

Source: Same as above.

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
5. To acquaint participants with sources and values of supplemental and indirect incomes during the retirement years	1. Review effect of earning extra income on Social Security benefits	Each participant should learn to check with nearest Social Security office for current allowed earnings	10
	2. Group leader will encourage participants to develop a list of ways for earning supplemental income, such as part-time work, hobbies that pay, or small businesses	Each participant will be able to list at least ten ways for earning extra income	

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
	3. Discuss possibilities of indirect income: a. Tax breaks b. Reduced bus fares, discounts on drugs, and lowered admissions at many places of entertainment c. Ways to save, especially "do-it-yourself" or "exchange services" with others	Participants should become familiar with various kinds of tax exemptions for the elderly, such as helpful deductions on income taxes and in some states on property taxes. Each participant should develop a list of helpful hints.	10
6. Relaxation and casual discussion	1. COFFEE BREAK	No measurement expected	10
7. To learn how to estimate one's net worth or equivalent; and to calculate and appreciate the cash value of anticipated Social Security and other pension incomes	1. Presentation, by group leader, on the importance of knowing the cash values of <u>all</u> of one's assets, e.g. Social Security, pensions, and fixed assets such as savings accounts, checking accounts, stocks, bonds, real estate, accounts and notes receivable, possible inheritances, etc. 2. An exercise: Each participant is asked to fill out the blanks in Table 8, as if he were 65 years old and ready for retirement. It will be very enlightening to convert the anticipated monthly Social Security payments into its total cash value by determining the amount required to establish a joint and survivor annuity that would yield an equivalent life-time income. This can be done quickly by referring to Table 5.	No measurement expected Demonstrated ability to determine one's total net worth, including the equivalent cash value of certain retirement benefits to which he will be entitled. (This may or may not increase one's retirement income, but it should increase one's self-respect for having accumulated elements of quantifiable net worth).	5 20

Table 8. Estimating Financial Value of All Assets and Income Available for Retirement

Item		Total Cash*	Monthly Income
I.	Social Security		
	Husband's retirement income	\$ _____ *	\$ _____
	Wife's retirement income	_____ *	_____
II.	Pension or retirement plan		
	Husband's plan	_____ *	_____
	Wife's plan	_____ *	_____
III.	Savings and investments		
	Life insurance, cash surrender value	_____	_____
	Savings accounts & certificates	_____	_____
	Checking accounts	_____	_____
	Stocks, bonds, mutual funds	_____	_____
	U. S. Savings Bonds	_____	_____
	Annuities, individually owned	_____ *	_____
IV.	Real & business property		
	Real estate (mkt. value)	_____	_____
	Interest in a business	_____	_____
V.	Other resources		
	Accounts & notes receivable	_____	_____
	Mortgages	_____	_____
	Inheritance	_____	_____
	Other	_____	_____
VI.	Total assets		
	A. Total estimated income	_____	_____
	B. Subtract all indebtedness	_____	_____
	C. Net worth (or equivalent	_____	_____

Note: In blanks marked with an asterisk, participant may determine current cash value by referring to the Table indicated.

Source: Adapted from R. S. Smith, Farmers and Retirement, Social Sciences Information Bulletin No. 5, New York State College of Agriculture, Cornell University, January 1971.

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
	Each participant is also asked to make the same calculations for anticipated pensions (husband's and/or wife's) and in other categories where cash values might be converted into retirement income. Do not do so if retirement income is not likely to be needed. Add the cash value of assets to determine net worth (or equivalent).		
8. To develop the ability to determine reasonable expectations of useable monthly income for retirement	1. An exercise in Column 2 of Table 8, insert figures showing all reasonably expected income, after retirement, without utilizing non-income producing fixed assets. These estimates of income are to be listed (or prorated) as monthly income.	Demonstrated ability to determine approximate amount of anticipated, useable, monthly income for retirement	
9. To consolidate and to clarify participants' learning	1. Questions and answers regarding entire session	Clarification of specific points by both leader and participants	10
		Total minutes	120

III. SESSION THREE: ESTIMATING RETIREMENT EXPENSES AND PROJECTING RETIREMENT BUDGETS THROUGH INFLATIONARY YEARS

A. Overview

1. Purpose: To help trainee-participants develop the knowledge, skills, and understandings necessary to prepare realistic retirement budgets, not only for the year ahead, but for the long-range future
2. Objectives:
 - a. To develop trainee's knowledge and understanding of the major factors to consider in making and balancing a realistic budget for retirement years;
 - b. To develop the skills required to prepare a realistic family budget for one's first year of retirement;
 - c. To understand, appreciate, and be able to plan for extended inflation during one's retirement years; and
 - d. To develop the understandings and skills necessary to balance anticipated income with anticipated expenditures over a period of at least five years
3. Methods:
 - a. Presentations by workshop leader (summary of previous sessions, introductions to new topics and exercises, and summary of current session);
 - b. Group exercises, utilizing tables and other resource information available in text;
 - c. Group discussion
4. Time Required: Two hours
5. Materials Needed:
 - a. Work pads and pencils for trainees
 - b. Overhead projector and transparencies of pertinent tables in this monograph (optional)

6. Suggested Readings

- Facts and Figures on Older Americans: Income and Poverty in 1973, Pamphlet No. 11. Published February 1975 by HEW Office of Human Development, AoA National Clearinghouse on Aging
- Some Economic and Legal Aspects of Retirement, Circular 584, published by N.C. Agricultural Extension Service, September 1974
- "A Guide to Budgeting for the Retired Couple", Home and Garden Bulletin No. 194, U.S. Department of Agriculture, Washington, D.C., revised October 1973
- "65 Ways to Beat Inflation in Retirement", The Retirement Letter, 3200 Farmington Drive, Washington, D.C. 20015

B. Perspective on Annual Budgets for Retirees

In planning a retirement budget it may be helpful to keep in mind comparative information on the incomes and budgets of other households in which the head of the house is 65 years of age, or older. The most recent study available on incomes of heads of households, 65 years old and older, was conducted by the Bureau of the Census in 1973, and the results were reported in a pamphlet entitled Facts and Figures on Older Americans: Income and Poverty in 1973, Pamphlet No. 11, published by HEW in February 1975 (see Table 9.) The information in this study was drawn from a nationwide population survey of 47,000 persons.

These being the latest available data, the following perspective is based on the statistics for 1973.

The median annual income of families with heads who were 65 years or older, was \$5,968 in 1972 and \$6,426 in 1973 - a 7.7 percent increase.

A little more than half (55 percent) of the 7.9 million families with aged heads had incomes of less than \$7,000 a year in 1973. About 63,000, or eight-tenths of one percent of the older families had annual incomes of less than \$1,000. Approximately four percent had incomes of less than \$2,000, and about 25 percent (or one of every four) of the older families had incomes between \$3,000 and \$5,000.

At the upper end of the income scale, 28.6 percent of the older families had incomes of \$10,000 or more; 4.4 percent had incomes of \$25,000 or more.

Those who lived alone (not shown in Table 9) had the lowest incomes. Of this group, 44 percent had incomes of less than \$2500 in 1973. Seventy-three percent of the older individuals had less than \$4,000 in income for the year. Obviously, this is a severely disadvantaged group.

About 12 percent of older families have heads who are year-round full-time workers. About 25 percent continue working after age 65, though not all work full-time.

Table 9. Percentage Distribution of Families in which the Family Head is 65 or Over, in 1973 (Est. 7,885,000 families)

Annual Income Range	Percent	
	Each Category	Cumulative
Under \$1,000	0.8	0.8
\$1,000 - \$1,499	1.1	1.9
1,500 - 1,999	2.0	3.9
2,000 - 2,499	3.1	7.0
2,500 - 2,999	4.9	11.9
3,000 - 3,999	11.3	23.2
4,000 - 4,999	12.4	35.6
5,000 - 5,999	10.6	46.2
6,000 - 6,999	8.8	55.0
7,000 - 7,999	6.5	61.5
8,000 - 8,999	5.7	67.2
9,000 - 9,999	4.2	71.4
10,000 - 11,999	6.7	78.1
12,000 - 14,999	7.6	85.7
15,000 - 24,999	9.9	95.6
25,000 and over	4.4	100.0
Median \$6,426		
Mean 9,029		

Source: Facts and Figures on Older Americans: Income and Poverty in 1973, Pamphlet No. 11. Published February 1975 by HEW Office of Human Development, AoA National Clearinghouse on Aging

As seen in Table 9, the annual income range for retired families is very great; however, in round numbers, the majority of retired American families (middle 50%) received incomes in 1973 between \$4,000 and \$11,000, with a median income of approximately \$6,400.

To bring these estimates more nearly in line with 1975 incomes, let us assume an 8 percent annual inflation rate which would be a 16.6 percent increase for the two-year period (see Table 2). This would mean that the middle 50 percent of retired incomes in 1975 would range from \$4,664 ($\$4000 \times 16.6$ percent) to \$12,826 ($\$11,000 \times 16.6$ percent), with a median 1975 income of approximately \$7,462.

The Bureau of Labor Statistics has estimated that the "average" retired couple spends the following percentages of their income for the purposes as indicated in Table 10.

Table 10. The Average Retired Couple's Budget

Purpose	Percent	Purpose	Percent
Housing	35%	Medical Care	8%
Food	26%	Gifts and Contrib.	6%
Transportation	9%	Recreation, Reading,	7%
Clothing	9%	and Miscellaneous	

Source: "65 Ways to Beat Inflation in Retirement", Financial Planning Guide, The Retirement Letter, Washington, D.C. (undated)

It is clear that no single pattern of retirement budgeting will suit all retirees; and, it is equally clear that as one's retirement income goes up or down, the percentages shown in Table 10 will vary somewhat. For example, in one set of three proposed budgets for retired couples in Durham, N.C. (in 1972), ranging in incomes from \$3,305 to \$7,383, the amounts spent for food ranged from 28.7 percent for the lowest income couple to 21.7 percent for the highest income couple, with 26 percent for the middle income family. Similar variations will occur in other categories, and these variations should be considered in cases where they are pertinent. However, for our purposes here, the percentage estimates provided by the Bureau of Labor Statistics will suffice.

C. Building the Retirement Budget

Sessions "One" and "Two" concentrated attention on maximizing income. Here, we are concerned with building realistic budgets based on known or anticipated incomes.

Using the three levels of 1975, income figures estimated above (as being approximately at the bottom, at the middle, and at the top of the middle 50 percent of the current incomes of older Americans), and therefore covering the majority of older American couples in 1975, Table 11 provides realistic examples of their respective budgets.

Table 11. Estimated Annual Budgets for Three Income Levels of Retired Couples in 1975 (based on 8 percent inflationary rate over the past two years)

Budget Item	Lower Budget (Approx. 25th %ile)		Intermediate Budget (Approx. Median)		Higher Budget (Approx. 75th %ile)	
	Per Mo.*	Per Yr.*	Per Mo.*	Per Yr.*	Per Mo.*	Per Yr.*
Housing	136	1632	218	2612	374	4489
Food	101	1213	162	1940	278	3335
Transportation	35	420	56	672	96	1154
Clothing	35	420	56	672	96	1154
Medical Care	31	373	50	597	86	1026
Gifts and Contrib.	24	280	37	448	64	770
Recreation, Reading and Misc.	27	326	43	523	75	898
Total	389	4664	622	7462	1069	12,826

* To the nearest dollar

Incomes below \$4,664 in 1975 fall into the "near-poor" and "poor" thresholds, and are therefore not included in Table 11. If necessary, a special session might be provided for this group, where the emphasis would be placed on topics such as food stamps, supplementary security income, medical assistance, chore service, and other assistance programs available to those who meet the income and other qualifying tests for special assistance for the low income group.

D. Balancing Retirement Income and Expenditures

Unpleasant as it is to face financial problems, it doesn't help to say, "I'll save more next year." DO IT NOW.

Most likely there will be a shortfall between expenses and income, because most retirees must live on a reduced income. Some experts say that one's retirement budget can be cut to about 75 percent of the pre-retirement budget. Certain work-associated costs are automatically eliminated. For example, house mortgages are usually paid up, childrens' educational expenses have ceased, the daily transportation to and from work is no longer required, clothing costs are usually less, and work-associated costs, such as membership dues and employee deductions, are reduced. These can easily add up to 25 percent or more.

What does one do after the obvious budget reductions are made? Obviously, the wider the gap, the more difficult the decision. Perhaps a change in housing is necessary in order to reduce fixed expenses. Since housing for retirees will be discussed in another Workshop, it will not be covered here.

For retirees with little savings, part-time work often helps them to meet the actual cost of living. For those with larger savings, part-time work postpones using these reserves prematurely. The retired person on Social Security can presently earn \$2520 per year without a reduction of his Social Security pension. (Review Social Security regulations covered in Session Two.)

Other savings may be necessary, such as "dollar stretchers" discussed in Session Two, as well as the very important part called "indirect income". Other cuts may be necessary, such as less expensive vacations. It can be a pleasant surprise to discover recreational programs available near home which cost little or nothing. Libraries are an excellent source for additional ideas. And, as mentioned previously in this session, retirees at the poverty (or near-poverty) level qualify for special assistance in several different categories.

In balancing retirement income and expenditures, it is always desirable to favor one's preferred activities and style of living, and cut on items of less importance. These are always matters of personal choice and, therefore, can be made only by the retiree.

E. Suggested Procedures, Competency Criteria, and Time Allocations for Session Three

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
1. Brief review of subjects previously covered	1. Concise summary by group leader of salient subjects covered in previous sessions	No measurement expected	5
2. To develop trainee's knowledge and understanding of major factors to consider in making and balancing a realistic budget for retirement years	2. Brief review by group leader of text and supplementary readings	Knowledge of income ranges for retired couples in U.S., of budget categories to be included in retirement budget, and of "average" budgets for retired couples with various levels of income	10
3. To develop one's skills in estimating a realistic family budget for one's first year of retirement	1. An exercise: With instructions from the group leader, each participant is asked to fill in the blanks in the first three columns in Table 12. Participants may choose their own budget planning situation or that of a fictitious individual or couple. The "Now" column should represent the participant's best estimate of one's budget during the year prior to retirement. Taxes, insurance, and some other expense items are best estimated on a yearly basis, in which case the yearly figure should be divided by 12, to obtain the proper figure for column 2.	Each participant must demonstrate ability to prepare a realistic retirement budget covering the full budget for the year prior to retirement and for the first year of retirement; also allowing for inflation during that year.	30
4. Relaxation and casual discussion	1. COFFEE BREAK	No measurement expected	10

Table 12. Estimating Retirement Expenses

Expenses	Now	During Retirement			
		First Year		Fifth Year	
		Per Mo.	Per Yr.	Per Mo.	Per Yr.
1. Housing					
a. Rent or Mtge.	_____	_____	_____	_____	_____
b. Property Taxes	_____	_____	_____	_____	_____
c. Property Ins.	_____	_____	_____	_____	_____
d. Prop. Maint.	_____	_____	_____	_____	_____
e. House Furn.	_____	_____	_____	_____	_____
f. Utilities	_____	_____	_____	_____	_____
-Heat	_____	_____	_____	_____	_____
-Light	_____	_____	_____	_____	_____
-Telephone	_____	_____	_____	_____	_____
-Water	_____	_____	_____	_____	_____
Total Housing	_____	_____	_____	_____	_____
2. Food	_____	_____	_____	_____	_____
3. Transportation (bus fares & all car expenses)	_____	_____	_____	_____	_____
4. Clothing	_____	_____	_____	_____	_____
5. Medical & Dent- al Care (inc. all Med. and Health Ins.)	_____	_____	_____	_____	_____
6. Gifts & Contrib.	_____	_____	_____	_____	_____
7. Miscellaneous					
a. Income Tax	_____	_____	_____	_____	_____
b. Recreation	_____	_____	_____	_____	_____
c. Rdg. & Educ.	_____	_____	_____	_____	_____
d. Ldry. & Dr. Cl.	_____	_____	_____	_____	_____
e. Entertainment	_____	_____	_____	_____	_____
f. Personal Items	_____	_____	_____	_____	_____
g. Other	_____	_____	_____	_____	_____
Total Misc.	_____	_____	_____	_____	_____
8. Savings or Emergency Fund	_____	_____	_____	_____	_____
TOTAL	_____	_____	_____	_____	_____

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
5. To understand, appreciate, and be able to plan for extended inflation during one's retirement years	An exercise: With instructions from the group leader, each participant will convert his/her first retirement year's budget to a fifth retirement year budget. Referring back to Table 2 (if one estimates a 6 percent inflation rate) the participant will pick up the 5th year cost @ 6 percent, or \$1338 per \$1000. This means a 33.8 percent inflation rate by the end of five years. Therefore, all items subject to inflation should be multiplied by 33.8 percent. (If one wishes to figure an annual inflation rate of 8 percent, Table 2 shows that at the end of five years, the annual increment would be 46.9 percent above the current figure.)	Each participant must be able to calculate the effects of inflation on his projected retirement budget over a given number of years	25

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
6. To develop the understandings and skills necessary to balance anticipated income with anticipated expenditures, over a period of at least five years	1. An exercise: On the basis of the knowledge, understandings, and skills developed to date in this workshop, each participant is now prepared to balance anticipated expenditures with anticipated income, using whatever methods that are necessary to bring them into balance. For example, this may mean making such determinations as the following: a. Establishing a new savings account and lowering the expenditure budget during the early years of retirement to meet later needs that could not be met by currently projected income for the later years; b. Calculating the anticipated increases in Social Security income to meet in part anticipated increases in the budget; c. Selling personal property, or cashing in a life insurance policy to establish an annuity for supplemental retirement income, now or at some future date; d. Devising means of generating additional income, or reducing expenditures, or both.	Each participant must demonstrate ability to realistically balance a projected retirement budget, by taking into consideration anticipated increased incomes (e.g. increases in Social Security) and increased expenditures due to anticipated inflation	30

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
7. To consolidate and to clarify participant learning	1. Questions and answers	Clarification of specific points	10
		Total minutes	120

IV. SESSION FOUR: LEGAL PROBLEMS

A. Overview

1. Purpose: To help trainee participants in the development of a keen sense of awareness of the more common types of legal problems facing retirees as they develop and carry out their own retirement plans; and to acquaint them with the major sources of legal information and help if, or when, they should find the need for such.
2. Objectives:
 - a. To provide general knowledge and understanding of the importance of wills, estate planning, and planning for possible incapacity or "incompetency";
 - b. To develop trainee's knowledge and understanding of what should be included in a will, as well as its general requirements and format;
 - c. To inform participants about the kind of information needed by a lawyer to draw up a will;
 - d. To develop trainee's knowledge and understanding of the meaning and purpose of estate planning;
 - e. To acquaint trainees with the steps recommended in the development of an estate plan;
 - f. To develop trainee's understanding of the importance of planning specifically for one's possible future incapacity;
 - g. To acquaint trainees with the legal role and authority of a guardian (when appointed for an older person), and some of the alternatives to a guardianship when an elderly person is declared "incompetent", and
 - h. To acquaint trainees with the legal problems often involved in claims that may be made against them, in claims that they themselves may wish to make against someone else, and the alternative avenues they might follow when they have been wronged as a consumer
3. Methods:
 - a. Two 20-minute lectures by group leader
 - b. Group discussion
 - c. Group participation in identifying examples of legitimate "claims" cases, and how to deal with them, and

d. Concise introductory and summary statements by group leader

4. Time Required: Two hours

5. Materials Needed:

a. Work pads and pencils

b. Overhead projector and transparencies (optional)

6. Suggested Readings:

- "How to Handle Your Assets", Modern Maturity, October-November 1972
- "Legal Problems", Planning for the Later Years, p. 3000 (8-67). Published by the U.S. Department of Health, Education & Welfare, Social Security Administration, Chapter X.
- "Planning for Incapacity", Some Economic and Legal Aspects of Retirement, Circular 588. Published by North Carolina Agricultural Extension Service, September 1974
- You and the Law, Reader's Digest Association, Inc., Pleasantville, New York, 1971
- "Crime, the Aging and Public Policy", Perspective, 1975, 3, 16-19

B. Wills

Everyone knows about wills - what a will is. Generally, we are all aware that if we want a certain member of our family, or someone else for that matter, to receive one or more of our possessions upon our own deaths, we may make that bequest in our will. But, just how much do we know about wills and the extent to which they are necessary or desirable?

The following "true-or-false" test may help you discover how much, or how little, you know about wills. Assuming that no will exists, please check the following statements as "true" or "false" (without reading beyond the test itself):

1. It is useless to make a will if you don't own very much True____ False____
2. Everything you own will go to your spouse at the time of your death True____ False____
3. Your children become beneficiaries only if your spouse is not living True____ False____
4. A will that is handwritten on a scrap of paper, dated, and signed, is always valid True____ False____
5. If you have personal preferences about your own burial arrangements or services, you should place such instructions in your safe deposit box True____ False____

See page 52 for answers to these questions.

Too many people think they don't own enough of value to justify the making of a will. Everyone should make sure that after his death his possessions - large or small - are disposed of in accordance with his wishes. The older one gets, the more important it becomes that his/her affairs are so arranged.

If one does not have a will, two things will happen at the time of death. First, the Court will select a person to manage the assets and will post a bond for the person so designated. Second, in North Carolina, the laws direct who receives the assets, and some of these legally mandatory decisions may surprise you. For example:

1. If you have a spouse and one child, one-half of the estate goes to the spouse, and one-half to the child;

2. If you leave a spouse and two or more children, one-third goes to the spouse and two-thirds to the children; or
3. If you have no children, one-half of your estate goes to your spouse, and the other half goes to the parents of the deceased.

It is wise to have a competent lawyer draw up your will. Laws vary from one state to another, and usually require that certain procedures be adhered to in the writing of a will. If, through lack of knowledge, you do not meet these legal requirements, it is possible that your will may not be valid or recognized by the Court. As a result, the Court may dispose of your property in a way completely different from that which you intended. DON'T TRY TO DO IT YOURSELF. Perhaps you are afraid that a lawyer will cost too much. Remember that a lawyer does not object to your asking in advance about the cost of his services.

Keep your will in a safe place, and make sure that some responsible person or persons know where it is kept. A safe-deposit box is generally not a good place to keep a will. Once a person has died, there is often a great deal of red tape involved in opening a safe-deposit box. Sometimes there are instructions in a will which should be known immediately after one's death, such as personal wishes in regard to funeral arrangements. You may leave one copy of your will for safekeeping with the lawyer who drew it up. Or, if your bank is your executor, your will could be held in a fireproof bank trust department vault, readily available when needed.

If you have had a series of wills, destroy all prior wills or mark them clearly as obsolete and void. Your attorney should advise you in this regard.

C. Estate Planning

Perhaps it will help you to better understand the meaning and purpose of "estate planning" and for whom it is intended if you again tested your current knowledge by taking the following very short test. As before, please check each of the following items as "true" or "false" before reading the text on this subject:

1. Estate planning is important only for those with medium or large estates True _____ False _____
2. Estate planning is concerned primarily with the disposition of one's estate at the time of one's death True _____ False _____

3. Estate planning is something very different from "financial planning for retirement years" True _____ False _____
4. The most important reason for estate planning is to reduce or defer taxes, within the legal provisions of the law True _____ False _____
5. Planning to have reasonable funds available for recreational purposes during one's retirement years is a matter of budgeting, not estate planning True _____ False _____

See page 52 for answers to these questions.

"Estate planning is a very broad concept", says Dr. J. Finley Lee, professor in the School of Business Administration of the University of North Carolina. "It includes planning the various means of handling or arranging for the disposition of one's estate."

According to Dr. Lee, the three basic objectives of estate planning are:

1. Establishing liquidity. Most people have very little liquidity, that is, actual money on hand. It is one of the primary needs during one's lifetime, and also at death;
2. Developing a plan for making maximum use of one's resources. Such a plan should be thought of primarily in terms of use by the persons themselves who have saved during their working years. Estate planning is a living thing, for persons who are alive, and only secondarily in terms of the transfer of one's assets at the time of death; and
3. Reducing and deferring taxes. We must recognize that certain taxes are there, and must be paid, but one should not pay any more taxes than the laws require; and, often there are advantages in deferring them as long as possible in order to get the fullest possible value of one's assets.

With these objectives in mind, it is apparent that "estate planning" means planning for the effective use of one's resources. It is not something to be limited to large estates. The effective utilization of one's resources, in terms of one's own likes and dislikes, is equally important for persons of modest means.

Some steps in the development of an "estate plan" are:

1. Determine yearly your net assets (see Topic E in Session Two). Be sure to include liabilities as well as assets;
2. Consider family needs. What are you, and others dependent upon you, going to need? Because of genuine needs, some retirees should draw in part from capital assets to meet on-going expenses;
3. Learn what the laws of your own state are. This is especially important if you own property or have assets in more than one state;
4. Consult your lawyer to determine if any one of several kinds of trust funds would be advantageous to you and the members of your family. Often, they are; and
5. Lastly, consider thoughtfully your own personal objectives and philosophies. Sometimes they change - thus you might find it worthwhile to write them down from time to time and then check back to determine if your past planning is still in harmony with your new goals.

D. Making Provisions for Incapacity

One of the most difficult and neglected areas in the financial and legal aspects of retirement planning, is that of knowing what to do about, or how to plan for, the contingency of one's own mental or physical incapacity. What options does one have? And, how does one choose from among the available options? The purpose of this section of the manual is to provide the legal definition of incapacity or "incompetency to manage one's affairs", to review the legal rights of incapacitated persons, and to discuss the advantages and disadvantages of optional arrangements for the management of one's business and legal affairs.

According to the North Carolina General Statutes, Section 35, 1.1, "A person becomes incapacitated when he loses customary self-control, judgment and discretion in the conduct of his affairs and social relations, making it necessary or advisable for him to be under treatment, care, supervision, guidance, or control." Obviously, this is not always easy to determine; hence, state laws provide a formal procedure - a court hearing - as a basis for determining one's ability to manage one's affairs. And, of course, court decisions can be appealed either by the petitioner(s) or the person alleged to be incompetent. If one wants to have his competency to handle his own affairs

determined by a court, the court will appoint either a guardian or a trustee to look after him and his affairs, if it determines him incompetent.

According to R. C. Wells and W. P. Pinna, Some Economic and Legal Aspects of Retirement, "Planning for Incapacity", North Carolina Agricultural Extension Service, Circular 588, September 1974, a guardian's "actions are carefully regulated by law to prevent misuse of the incompetent's property. For example, the guardian can act on behalf of the incompetent in matters regarding the incompetent's property, but legal ownership remains with the incompetent. Court approval is required before the guardian can sell property. A bond is required by the guardian as evidence of good faith in management of the incompetent's property and regular accountings of guardianship income and expenses are required by the court." Hence, the legal rights of the incompetent person are protected as much as is reasonably possible by the law. Nonetheless, problems often occur in such arrangements, and personal relationships often become strained. Unfortunately, this often happens whether the guardian is a member of the family or not.

Clearly, most elderly persons would be better served - and happier with the arrangement - if they made their own prearrangement for their property management, at a time when the options are up to them, and when they are free to discuss the options with members of their families, their lawyers, bankers, trust officers, or others who could help them make the best possible decision before the crisis comes.

But, what are some of the options that can be chosen in advance?

Maintenance Contracts. This is an agreement, either verbal or written, in which children (usually) agree to care for the parent(s) during the remainder of the parent's lifetime in exchange for the transfer of property, money, or something else of value to the children immediately or at some time in the future (see Wells and Pinna, *ibid.* p. 5).

Co-ownership. Again, according to Wells and Pinna (*ibid.* p. 6), "Some retirees will create joint or co-ownership of some of their property with another individual, usually a family member. The purpose of such a transaction is to allow the co-owner of the property (a son, for example) to manage it for the other person (a parent) should he become unable to do so. For example, some parents create banking or checking accounts with right of survivorship with a

son or other family member. The son, as co-owner of the account, can withdraw needed funds to pay medical expenses for the parent. Similarly, a parent could create joint ownership of real property with a child. The child, as co-owner, could manage the property (pay taxes, make improvements, etc.). Before creating co-ownership arrangements, the individual should be fully aware of the legal and tax implications of the arrangement he creates."

Wells and Pinna (ibid. p. 6) describe three types of co-ownership, with the advantages and disadvantages of each, and then offer "some words of caution concerning co-ownership arrangements in planning for incapacity".

Power of Attorney. The allocation of "power of attorney" is an often used method of delegating one's responsibility for handling the financial and property management affairs when one becomes incapacitated. Wells and Pinna (ibid. p. 7) define power of attorney as "a witnessed and acknowledged document which you sign giving another person called an attorney in fact the authority to act for you... If the attorney in fact is authorized to act for you in all matters, he has a general power of attorney; if he has authority to do only certain specified things he has a special power of attorney."

E. Other Legal Matters

We have discussed the importance of obtaining legal advice in drawing up wills, in developing estate plans, and in planning for incapacity; but, there are still other kinds of legal problems that may be encountered at any time, and for which legal advice should be sought. These can be especially distressing during retirement because of reduced incomes and less elastic budgets.

Claims that May be Made Against You. A major area of legal concern is that of claims that may be made against you for one or more reasons. There are two types of such claims. One refers to a contractual wrong, that is, a claimant may accuse you of failure to live up to some agreement. The other refers to a non-contractual wrong, that is, you may be accused of being responsible for some accident, injury, or wrong which does not involve your failure to live up to an agreement.

If one signs a contract, one must realize that it means exactly what it says - nothing more and nothing less. DO NOT SIGN ANYTHING UNLESS YOU HAVE READ IT AND FULLY UNDERSTAND IT. It is good practice to ask some qualified adviser to explain a document to you before signing, if you are not sure you fully understand it.

Oral "understandings" of what the contract means, simply are not binding. If changes are to be made, they should be made in writing on all copies of the contract before it is signed.

An agreement to buy or sell property is a contract. So is a lease. Since a contract may involve a great deal of money, make sure that it states what you want it to state, exactly and completely. If it is a lease, make sure you understand the terms under which it may be terminated. Any landlord-tenant agreement comes under this category. These rules are important at any time, but they are even more important in a period of inflation when rental rates are constantly rising.

A non-contractual claim may be made against you by someone who claims to have suffered injuries on your property, either to his person or to his property. Obviously, it is to your advantage to insure yourself adequately against this possibility. If you own an automobile, be sure to carry adequate insurance to cover property damage or bodily injury that may arise out of the use of the automobile. (Automobile liability insurance is mandatory in North Carolina.) If you own other property, it would be prudent to take out a comprehensive public liability policy. (See Session Five for more complete explanations in regard to insurance policies.) It isn't a question of whether you can afford such insurance policies, but whether you can afford not to have them.

If you are the injured person, don't rush inadvisedly into a settlement of your claim until you are sure that you know the full extent of your injury, and that the amount accepted is adequate compensation for the injury. It is too late for redress after accepting a settlement, should you find later that the injury is greater than at first thought.

A typical example of a consumer insurance problem might involve settlement of a small claim for damage caused by a minor car accident when no civil laws are involved. Let us follow an actual case:

Mr. K. was parked in a university parking lot. Someone bumped his car's left rear fender, scratched the paint, tore off the bumper stripping and left maroon paint on his car. The damage was \$53.45.

Fortunately, a passerby left a note on Mr. K's windshield with the license number of the car that did the damage and the time of the accident. The office of the campus police was notified and the hit-and-run driver was identified.

A claim was filed with the woman's insurance company. She denied the accident, saying she was in a bank at the time. On the basis of her statement the insurance company refused the claim.

Mr. K. sent his information to the Department of Insurance. Following the investigation by the Department, the woman's insurance company said enough doubt was established to warrant payment of the claim.

Any North Carolina resident with an insurance problem who does not know what to do about it, should call or write for advice from the Consumer Insurance Information Division of the North Carolina Department of Insurance. By dialing 800-662-7975, this department can be reached, toll free, from any location in North Carolina.

Letters should be addressed to W. Kenneth Brown, Deputy Commissioner, Consumer Insurance Information, Department of Insurance, P.O. Box 26387, Raleigh, N.C. 27611. The department is in Room 1002 of the Wake County Courthouse on Fayetteville Street in Raleigh.

Problems Encountered as a Consumer. Consumer problems frequently arise. Defective products or poor repair services are numerous. How do you go about making a complaint? If the company does not take care of a legitimate complaint, what are the consumer's rights?

Many new agencies have been established recently to help consumers. They may serve a single community or a small region.

1. Local business managers often form an association within a community to promote ethical business practices. The Local Merchants Association and the Chamber of Commerce are interested in learning about customer complaints;
2. The Better Business Bureau is an excellent source of help. At present, there are five in North Carolina, and each operates on a regional basis;
3. News media complaint desks are popular;
4. Licensing boards can be effective in resolving certain kinds of consumer problems. A complaint to a licensing board should be in writing and should contain only the facts known to be true. These boards not only set standards for getting the license, but they can also take away a license;

5. If a consumer, with a legitimate problem, has tried to talk with the company's management but without satisfaction, or if he has talked with a local consumer assistance agency, but feels more should be done, he has two other resources. He can talk with a lawyer about his legal rights; or, he can report unfair and deceptive business practices to the Consumer Protection Division, Office of the Attorney General, Post Office Box 629, Raleigh, North Carolina 27602.

"Request for Assistance" form, next page.

There is one other protection for retirees that should be called to their attention. Unfortunately, older persons are sometimes the victims of muggings where they are robbed of their Social Security checks. If a person elects to do so, he may have his Social Security checks mailed directly to his checking account. Here's how:

His bank should complete Standard Form 233, a "Power of Attorney by an individual to a financial organization for the collection of checks drawn on the Treasurer of the United States". He signs the form, making sure that his Social Security number is included, calls the local Social Security office and asks that it mail his Social Security checks directly to the specified bank

Answers to questions on pages 45 - 46:
1. False, 2. False, 3. False, 4. False, 5. False.

Answers to questions on page 44:
1. False, 2. False, 3. False, 4. False, 5. False.

REQUEST FOR ASSISTANCE
(Please type or print)

To: Consumer Protection Division
Attorney General's Office
Post Office Box 629
Raleigh, North Carolina 27602

From: (Your Name) _____

Address _____

Telephones: Home _____ Business _____

Company or person complained about: _____

_____ Telephone _____

Address _____

PLEASE EXPLAIN BRIEFLY WHAT YOU WISH TO REPORT OR COMPLAIN ABOUT. WHEN APPROPRIATE, DESCRIBE THE PRODUCTS OR SERVICES INVOLVED; ANY ADVERTISING YOU RESPONDED TO; CONTRACTS OR PAPERS YOU HAVE SIGNED; AND ALL COMMUNICATIONS WITH SALESPERSONS AND OTHER COMPANY REPRESENTATIVES. ATTACH COPIES OF ADS, CONTRACTS AND RELATED DOCUMENTS, WHEN APPROPRIATE. Description of complaint (use reverse side if necessary): _____

What adjustment do you consider mutually fair? _____

May we identify you to company? Yes _____ No _____ If you have contacted an attorney, state name and address: _____

The above statements are true to the best of my knowledge and belief.

Signed _____ Date _____

Note: The Attorney General's Consumer Protection Division acts to protect the general public from unfair or deceptive business practices. While we can often assist with the mediation of a dispute when the parties are willing, we do not act as a lawyer or advocate for one person who has a dispute with another. We encourage people to send us information about suspected business practices. Often, the more reports we receive, the clearer the practice is revealed.

F. Suggested Procedures, Competency Criteria, and Time Allocations for Session Four

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
1. Brief review of subjects previously covered	1. Concise summary by group leader of salient subjects covered in previous sessions	No measurement expected	8
2. To provide a detailed overview of the kinds and scope of legal problems that can and do confront elderly persons in their retirement years	1. Review by group leader of text and supplementary readings covering: a. Wills b. Estate Planning c. Planning for Incapacity	No measurement expected	20
3. To develop trainee's knowledge and understanding of what should be included in a will, as well as its general requirements and format	1. Review in class the general format and content of a will (see Table 13)	Questions and answers until leader satisfies himself that all participants understand the seven components listed	7

Table 13. Format and Content of your Will

1. First sentence identifies you by name and address, and states that you are knowingly making your will;
2. Revoke all previous wills or codicils you may have made;
3. Direct prompt payment of your burial expenses, debts, and taxes;
4. Next, provide for the distribution of your estate, including personal possessions;
5. If you are leaving any of your estate in trust, specify the trustees;
6. Be very certain to designate an executor (he has the job of carrying out your wishes);

7. Finally, your signature, the date, and the signatures and addresses of your witnesses, including a statement by them that they saw you sign the document, that you acknowledged your will, and that they have signed as witnesses, at your request, in your presence, and in the presence of each other.

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
4. To inform participants about the information needed by a lawyer to draw up a will	1. Review in class Table 14. Questions and answers	This need not be memorized, but participants should know that such a list exists, but that if one does not provide all information at the outset, one's lawyer will request it	5

Table 14. Information your Lawyer Needs in Drawing up your will

1. Complete list of all your assets (bank accounts, stocks, bonds, and your prized personal effects)
2. Complete list of all real estate, jointly or wholly owned by you, its value and location
3. A list of all of your debts and obligations
4. Any inheritances expected
5. Your approximate income and general standard of living for the past several years
6. List of all insurance, including policy numbers and face amounts
7. Family information: names, ages, and state of health of all family, including adopted children

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
5. To understand meaning and purpose of "estate planning"	1. Review in class the five-item test found in text. Discuss	Participants will give right answers to all five questions	5
6. To know and understand the basic purposes of an "estate plan" and the usual steps followed in the development of one	1. Review and discuss three purposes and five steps recommended in text by Dr. Finley Lee	Understanding as indicated in discussion session	5
7. To know and understand why it is important to plan specifically for one's possible future incapacity	1. Discussion of text with special emphasis on legal meaning of "incompetency to manage one's affairs" and the rights of persons declared "incompetent"	Understanding as indicated in discussion	5
8. To know and understand the role and authorities of a guardian for a person declared "incompetent", and at least three alternatives to a "guardianship" for elderly persons	1. Discussion of text	Understanding as indicated in discussion	10
9. Relaxation and casual discussion	1. COFFEE BREAK	No measurement expected	10
10. To provide for the trainee participants an overview of other types of legal problems that often confront retired persons	1. Review by group leader of the text and supplementary readings covering: a. Claims that may be made against you b. How to make claims c. Consumer complaints and the various assistance agencies available to help consumers	No measurement expected	15

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
11. To illustrate specific examples of cases where legitimate complaints on claims might be made by an innocent retiree	1. Group leader asks participants to cite in detail real cases of legitimate complaints, justifying the filing of a claim by an elderly person. From the several mentioned, group leader selects two, divides the group into two sections, each with an appointed leader, to develop list of steps (including alternative) steps that complainant should follow in getting the wrong corrected. Each group is then asked to present its recommended steps to the entire group, where they are discussed further	A general appraisal of the extent to which the steps were thorough and logical, based on the various alternatives suggested in the text (and/or others not included in text)	30
		Total minutes	120

V. SESSION FIVE: TAXES AND INSURANCE

A. Overview

1. Purpose: To assist trainee participants in the development of increased knowledge and understanding of the tax benefits and realities facing all older Americans, as well as several types of insurance of special interest to retirees.
2. Objectives:
 - a. To inform trainee participants of those categories of personal or family income that are taxable and non-taxable at federal and state levels;
 - b. To provide trainee participants with a comprehensive but not exhaustive checklist of allowable deductions when calculating one's federal and state income taxes;
 - c. To point out the major differences in North Carolina and federal income tax regulations affecting retirees;
 - d. To acquaint trainees with useful information covering optional dispositions of life insurance policies when one reaches retirement age;
 - e. To acquaint trainees with important factors to consider in deciding how to have adequate but not excessive health insurance during retirement (with special emphasis on Medicare and what is needed to supplement Medicare); and
 - f. To acquaint trainees with information, useful to retirees, about property and automobile insurance.
3. Methods:
 - a. Lecture
 - b. Group discussion
 - c. Self-instructional test (and self-grading of test)
4. Time Required: Two hours
5. Materials Needed:
 - a. Work pads and pencils
 - b. Overhead projector and transparencies of pertinent tables in this monograph (optional)
 - c. Blackboard or flip chart on which to record test results

6. Suggested Readings:

- Your Medicare Handbook, available at your nearest Social Security Administration office
- "Ways to Fill in What Medicare Leaves Out", Changing Times, February 1975
- "Protecting Older Americans Against Overpayment of Income Taxes", Committee Print, U.S. Senate, Special Committee on Aging, 94th Congress, 1st Session, January 1975. Available from U.S. Government Printing Office. Price 30¢
- "Taxes and the Older North Carolinian", available from Governor's Coordinating Council on Aging, 213 Hillsborough St., Raleigh, N.C. 27603. (919) 829-3983
- "Tax Information for Retired Persons", Some Economic and Legal Aspects of Retirement, Circular 587. Published by North Carolina Extension Service, September 1974
- From IRS (free)
 - "Retirement Income Credit", Publication #524
 - * "Tax Information on Selling Your Home", Publication #523
 - "Tax Information on Pensions and Annuities", Publication #575
 - "Contributions", Publication #526
 - * "Tax Benefits for Older Americans", Publication #554

(Those marked with an asterisk are included in the Appendices of this monograph.)

B. Taxable Income

There are many sources of income. Some are taxable, and others are not. Some are taxable by the federal government, and some by the state. Table 15 provides a good summary of the taxable and non-taxable incomes, and also shows the major differences between state and federal laws regarding the taxation of income.

Table 15. Non-taxable and Taxable Income for Retirees

Item	Comment
<u>Non-taxable income:</u>	
Gifts, bequests, inheritances Social Security and railroad retirement benefits	
Employee's death benefits	First \$5,000 received by heirs of estate of an employee paid by or on behalf of an employer is exempt, provided that the payments are from a qualified stock bonus pension or profit sharing trust paid within one taxable year to the distributee, or provided that the employee did not possess immediately before his death a non-forfeitable right to receive payments while living
Life insurance death proceeds	
Public assistance programs	
Certain retirement and pension plans	North Carolina exempts partially or fully federal employees, firemen and law officer pensions, armed forces, teacher's and state employee retirement benefits, local government retirement benefits, etc.
Veteran Administration benefits	

Table 15 (Cont'd.)

Item	Comment
Interest on certain governmental obligations	North Carolina exempts interest on North Carolina and U.S. Government obligations. Federal government exempts interest on state and local governmental obligations
<u>Taxable income:</u>	
Wages, salaries, bonuses, commissions, fees	
Interest from bank deposits, credit unions, earnings from savings and loan associations, other loans, bonds	See above for exemptions
Interest from life insurance proceeds	North Carolina - Interest payments received on proceeds left with insurance company are taxable. Federal - \$1,000 excludable if spouse receives proceeds in installments.
Dividends	Federal - \$100 exempt with single return, \$200 if joint return
Rental income	North Carolina and federal allow deductions against gross rent for depreciation, repairs, utilities, taxes, etc.
Pensions and annuities	North Carolina and federal - If paid in full by employer, taxable; if partly paid for by individual, partly taxable

Source: Some Economic and Legal Aspects of Retirement, Circular No. 587, published by North Carolina Agricultural Extension Service, September 1974

C. Federal Income Taxes

Many older Americans overpay their federal income taxes each year, because they are either unaware of allowable deductions, or they are unwilling to take the time to make the necessary claims. The Internal Revenue Service repeatedly stresses that it wants no taxpayer to pay more than is legally due. In fact, the U.S. Supreme Court has also addressed this issue (Gregory v. Helvering, 293 U.S. 465, 469 (1935)):

The legal right of a taxpayer to decrease the amount of what otherwise would be his taxes, or altogether avoid them, by means which the law permits, cannot be doubted.

Table 16 contains a list of allowable deductions in computing one's federal income tax. It is not an exhaustive list covering every available deduction under all conceivable circumstances, but (hopefully) it is sufficiently comprehensive to be helpful to persons who itemize their deductions; and, also helpful to elderly taxpayers in deciding whether it would be advantageous to itemize all of their deductions, or to use the standard allowable deductions. Inasmuch as most retirees live on reduced incomes, this latter decision itself may be an important one. This list, in addition to Tax Benefits for Older Americans, IRS Publication 554, which is included in this manual, may also be helpful to elderly persons who may have failed to deduct permissible expenses on previous returns. A taxpayer may prepare an amended return (using Form 1040X) to claim allowable expenditures initially overlooked, provided the amended return is filed within three years after the original return was due.

If an elderly taxpayer needs assistance in filing a tax return, he should seek professional help. His or her attorney, banker, or accountant may more than make up for the cost of professional help by the tax savings received. Most CPA's charge an individual by the hour. If the taxpayer does it himself in pencil, then gets the expert to go over his work, he can usually save money. If the taxpayer would prefer free advice, he can make a visit to the local Internal Revenue Service office.

Table 16. Checklist of Itemized Deductions (Schedule A, Form 1040)

1. Medical and Dental Expenses. Medical and dental expenses (unreimbursed by insurance or otherwise) are deductible to the extent that they exceed 3% of a taxpayer's adjusted gross income (line 15, Form 1040).

Table 16 (Cont'd.)

2. Insurance Premiums. One-half of medical, hospital, or health insurance premiums are deductible (up to \$150) without regard to the 3% limitation for other medical expenses. The remainder of these premiums may be deducted, but is subject to the 3% rule.
3. Prescription Drugs. These are included in medical expenses (subject to the 3% rule), but only to extent exceeding 1% of adjusted gross income (line 15, Form 1040).
4. Other Allowable Medical and Dental Expenses. (subject to the 3% limitation unless otherwise specified):

Abdominal supports
Acupuncture services
Ambulance hire
Anesthetist

Arch supports
Artificial limbs and teeth
Back supports
Braces

Capital expenditures for medical purposes (e.g., elevator for persons with a heart ailment) - deductible to the extent that the cost of the capital expenditure exceeds the increase in value to your home because of the capital expenditure. Taxpayer should have an independent appraisal made to reflect clearly the increase in value.

Cardiographs
Chiropractist
Chiropractor
Christian Science practitioner, authorized
Convalescent home (for medical treatment only)
Crutches
Dental services (e.g., cleaning, X-ray, filling teeth)
Dentures
Dermatologist
Eyeglasses
Food or beverages specially prescribed by a physician (for treatment of illness, and in addition to, not as substitute for, regular diet; physician's statement needed)
Gynecologist
Hearing aids and batteries
Home Health services (not covered by Medicare)

Hospital expenses
Insulin treatment
Invalid chair
Lab tests
Lip reading lessons (designed to overcome a handicap)
Neurologist
Nursing services (for medical care, including nurse's board paid by you)
Occupational therapist
Ophthalmologist
Optician
Optometrist
Oral surgery
Osteopath, licensed
Pediatrician
Physical examinations
Physician
Physical therapist
Podiatrist
Psychiatrist
Psychoanalyst
Psychologist
Psychotherapy
Radium therapy

Table 16 (Cont'd.)

Sacroiliac belt	Transportation expenses for medical purposes (7¢ per mile plus parking and tolls or actual fares for taxi, buses, etc.)
Seeing-eye dog and maintenance	Vaccines
Speech therapist	Vitamins prescribed by a doctor (but not taken as a food supplement or to preserve general health)
Splints	Wheelchairs
Supplementary medical insurance (Part B) under Medicare	Whirlpool baths for medical purposes
Surgeon	X-rays
Telephone/teletype special communications equipment for the deaf	

5. Taxes. Federal Income Tax provisions allow for the deduction of the following taxes:

Real estate	State and local income
State and local gasoline	Personal property
General sales	

If sales tax tables are used in arriving at your deduction, you may add to the amount shown in the tax tables only the sales tax paid on the purchase of five classes of items: automobiles, airplanes, boats, mobile homes, and materials used to build a new home when you are your own contractor.

When using the sales tax tables, add to your adjusted gross income any nontaxable income (e.g., Social Security, Veteran's pension or compensation payments, Railroad Retirement annuities, workman's compensation, untaxed portion of long-term capital gains, recovery of pension costs, dividends exclusion, unemployment compensation and public assistance payments).

6. Contributions. In general, contributions may be deducted up to 50% of your adjusted gross income (line 15, Form 1040). However, contributions to certain private, nonprofit foundations, veterans organizations, or fraternal societies are limited to 20% of adjusted gross income.

Cash contributions to qualified organizations for (1) religious, charitable, scientific, literary, or educational purposes, (2) prevention of cruelty to children or animals, or (3) Federal, State or local governmental units (tuition for children attending parochial schools is not deductible). Fair market value of property (e.g., clothing, books, equipment, furniture) for charitable purposes. (For gifts of appreciated property, special rules apply. Contact local IRS office.)

Table 16 (Cont'd.)

Travel expenses (actual or 7¢ per mile plus parking and tolls) for charitable purposes (may not deduct insurance or depreciation in either case).

Cost and upkeep of uniforms used in charitable activities (e.g., scoutmaster).

Purchase of goods or tickets from charitable organizations (excess of amount paid over the fair market value of the goods or services).

Out-of-pocket expenses (e.g., postage, stationery, phone calls) while rendering services for charitable organizations.

Care of unrelated student in taxpayer's home under a written agreement with a qualifying organization (deduction is limited to \$50 per month).

7. Interest.

Home mortgage

Auto loan

Installment purchases (television, washer, dryer, etc.)
Bank credit card - can deduct the finance charge as interest if no part is for service charges or loan fees, or credit investigation reports. If classified as service charge, may still deduct 6% of the average monthly balance (average monthly balance equals the total of the unpaid balances for all 12 months, divided by 12) limited to the portion of the total fee or service charge allocable to the year.

Points - deductible as interest by buyer where financing agreement provides that they are to be paid for use of lender's money. Not deductible if points represent charges for services rendered by the lending institution (e.g., VA loan points are service charges and are not deductible as interest). Not deductible if paid by seller (are treated as selling expenses and represent a reduction of amount realized).

Penalty for prepayment of a mortgage - deductible as interest.

Revolving charge accounts - may deduct the "finance charge" if the charges are based on your unpaid balance and computed monthly.

Table 16 (Cont.d)

8. Casualty or Theft Losses.

Casualty (e.g., tornado, flood, storm, fire, or auto accident, provided not caused by a willful act or willful negligence) or theft losses to nonbusiness property - the amount of your casualty loss deduction is generally the lesser of (1) the decrease in fair market value of the property as a result of the casualty, or (2) your adjusted basis in the property. This amount must be further reduced by any insurance or other recovery, and, in the case of property held for personal use, by the \$100 limitation. You may use Form 4684 for computing your personal casualty loss.

9. Child and Disabled Dependent Care Expenses.

For information about child and dependent care deductions, see Publication 503 available free at Internal Revenue offices.

10. Political Campaign Contributions.

Taxpayers may now claim either a deduction (line 33, Schedule A, Form 1040) or a credit (line 52, Form 1040), for campaign contributions to an individual who is a candidate for nomination or election to any Federal, State, or local office in any primary, general or special election. The amount of tax credit is one-half of the political contribution, with a \$12.50 ceiling per person (\$25.00 for couples filing jointly).

11. Additional Personal Exemption for Age.

In addition to the regular \$750 exemption allowed a taxpayer, a husband and wife who are 65 or older on the last day of the taxable year are each entitled to an additional exemption of \$750 because of age. You are considered 65 on the day before your 65th birthday. Thus, if your 65th birthday is on January 1, 1975, you will be entitled to the additional \$750 personal exemption because of age for your 1974 Federal income tax return.

12. Multiple Support Agreements.

Form 2120 (Multiple Support Declaration) may be used for this purpose.

Table 16 (Cont'd.)

13. Sale of Personal Residence by Elderly Taxpayers.

A taxpayer may elect to exclude from gross income part, or, under certain circumstances, all of the gain from the sale of his personal residence, provided:

- a. He was 65 or older before the date of the sale, and
- b. He owned and occupied the property as his personal residence for a period totaling at least 5 years within the 8-year period ending on the date of the sale.

Taxpayers meeting these two requirements may elect to exclude the entire gain from gross income if the adjusted sales price of their residence is \$20,000 or less. (This election can only be made once during a taxpayer's lifetime.) If the adjusted sales price exceeds \$20,000, an election may be made to exclude part of the gain based on a ratio of \$20,000 over the adjusted sales price of the residence. Form 2119 (Sale or Exchange of Personal Residence) is helpful in determining what gain, if any, may be excluded by an elderly taxpayer when he sells his home.

Additionally, a taxpayer may elect to defer reporting the gain on the sale of his personal residence if within one year before or one year after the sale he buys and occupies another residence, the cost of which equals or exceeds the adjusted sales price of the old residence. Additional time is allowed if you construct a new residence. Publication 523 (Tax Information on Selling Your Home) may also be helpful.

14. Retirement Income Credit.

To qualify for the retirement income credit, you must (a) be a U.S. citizen or resident, (b) have received earned income in excess of \$600 in each of any 10 calendar years before 1974, and (c) have certain types of qualifying "retirement income". Five types of income - pensions, annuities, interest, and dividends included on line 15, Form 1040, and gross rents from Schedule E, Part II, column (b) - qualify for the retirement income credit.

The credit is 15% of the lesser of: (a) a taxpayer's qualifying retirement income, or (b) \$1,524 (\$2,286 for a joint return where both taxpayers are 65 or older) minus the total of nontaxable pensions (such as Social Security benefits or Railroad Retirement annuities) and earned income (depending upon the taxpayer's age and the amount of any earnings he may have).

Table 16 (Cont'd.)

Schedule R is used for taxpayers who claim the retirement income credit.

The Internal Revenue Service will compute the retirement income credit for a taxpayer if he has requested that IRS compute his tax and he answers the questions for columns A and B and completes lines 2 and 5 on Schedule R - relating to the amount of his Social Security benefits, Railroad Retirement annuities, earned income, and qualifying retirement income (pensions, annuities, interest, dividends, and rents). The taxpayer should also write "RIC" on line 17, Form 1040.

Source: Committee Print on Protecting Older Americans Against Overpayment of Income Taxes, prepared by U.S. Senate Committee on Aging, January 1975. For more detailed information, see IRS publication 554, Tax Benefits for Older Americans, which is included in this manual, or consult your local IRS office.

D. Some Differences in State (N.C.) and Federal Income Taxes

Of course, retirees must file state income tax returns as well as federal, and there are some major differences between the two. Table 17 records some of these differences.

Table 17. Some Differences in State (N.C.) and Federal Income Taxes

1. State law does not allow for: Gasoline taxes or sales taxes (unless for business purposes) State income tax paid 2. State law does not exempt: Unemployment compensation payments A portion of gain from sale of residence by reason of being over age 65 3. State law does exempt: Benefits from N.C. Retirement System for Teachers and State Employees, from the Law Enforcement Officers Benefit and Retirement Fund, and from the N.C. Local Government Retirement System 4. State law does exempt interest income from obligations of the United States 5. State law does not allow: The deduction of 50% of capital gains (gains are 100% reportable) The filing of joint returns (although both incomes and deductions may be reported on a single form) A separate deduction for one-half of the premium paid for insurance against illness or accident Income averaging	6. State law: Allows medical expense deduction for amounts in excess of 5% of adjusted gross income Limits contribution to 15% of adjusted gross income with certain exceptions Does not allow a carry-over of the contributions deduction Does not have a \$100 floor for casualty and theft loss deductions Does not have a \$1,000 limitation on loss deductions Does not allow an exclusion of a contribution by an employer to purchase tax sheltered annuity contracts which results from an agreement by an employee to take a reduction in salary or forego an increase Does not allow a deduction or tax credit for political contributions
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E. Insurance

The subject of insurance is broad. For this manual only four kinds of insurance will be covered: life, health, property, and automobile. By necessity, the coverage of each is brief.

1. Life Insurance: "A life insurance contract is an asset like a house, shares of stock, or a savings and loan account. It is more than an agreement between you and the insurance company to pay a sum of money to someone upon your death", says Dr. J. Finley Lee of the School of Business Administration at the University of North Carolina. Dr. Lee feels it is more like a "bundle of rights".

When children leave home, the financial responsibilities for older couples are usually reduced. It is time to reappraise one's insurance needs. Many retirees have life insurance which provides them with more protection than they need.

In most cases, life insurance has already

- protected family or business
- been a useful source of liquid savings
- been a sound investment
- provided collateral for borrowing against a policy

On retirement, life insurance can

- continue as a protection, especially if needed as liquidity for one's estate
- be converted to a paid-up policy to eliminate premium expense. This usually means a lower face value
- be cashed in, taking the money in a lump sum or on an installment arrangement
- be converted into an annuity by surrender of the contract. There is no surer way to have guaranteed life income than through an annuity (see kinds of annuities covered in Session Two).

2. Health Insurance: Medicare has been in effect since July 1966. It is the basic health insurance for people who are 65 and over; and it has relieved one of the major concerns of older people. Anyone who is eligible for Social Security or railroad retirement payments is automatically eligible for Medicare on his or her 65th birthday.

It is a good idea to apply for Medicare insurance at least three months before one's 65th birthday. When obtaining the hospital insurance of Medicare, one is automatically covered with medical insurance, unless otherwise specified.

There are two parts to Medicare: Part A, Hospital Insurance Benefits, and Part B, Medical Insurance Benefits. The hospital insurance (Part A) pays mainly for hospital costs. It covers all persons 65 and over who are entitled to Social Security benefits, and there are no monthly premium costs for its coverage.

The medical insurance (Part B) helps meet the costs of physicians' services, is voluntary for persons 65 and over who are entitled to Social Security benefits, and has a monthly premium charge. The monthly premium for Medicare (Part B) insurance is \$6.70, through June 30, 1975. This premium may increase if the costs of medical care rise.

Persons 65 and over who haven't worked long enough to be eligible for Medicare's hospital insurance may get this same protection by enrolling and paying the full monthly premium (not the reduced premium for those on Social Security), just as they would for other health insurance. The premium for those not on Social Security is now \$36 a month. They must also enroll for the medical insurance and pay its premium also, which is \$6.70 per month. The rates quoted are the current ones, and, of course, are subject to change. For persons unable to pay these premium costs, they may be able to get help from the Medicaid program (a program for low income elderly).

More and more interest is developing for private health insurance as a supplement to Medicare.

Medicare is paying for a steadily decreasing share of the health costs of the elderly. In 1969, for example, Medicare covered nearly 40% of the health costs of the aged and in 1973 only 35%. At the same time the monthly medical premiums have increased, the amount of the hospital deductible has steadily risen, and the hospital coinsurance has increased. Other factors contributing to this need are the "tightening" of controls in the use of skilled nursing facilities and the continuing increases in prices for items not covered by Medicare.

While all cannot afford it, most retirees do need health insurance that's supplementary to Medicare, sometimes called "medi-gap" insurance. More than 50% of all 65-plus Americans do pay "medi-gap" premiums. These private health insurance policies are purchased to cover two kinds of gaps in Medicare: gaps caused by the deductibles and coinsurance under Parts A and B, and gaps arising because Medicare leaves many services uncovered, such as out-of-hospital prescription drugs, non-surgical dental care, and routine medical examinations.

Because of the lack of adequate protection, many are vulnerable to the "hard-sell" and "scare" tactics of some of the insurance companies, particularly those companies offering highly advertised policies of the "mail order" variety. Older persons are warned against such policies. There are some good policies, however, such as the "Over 65" policy of Blue Cross-Blue Shield, and various types of policies available through AARP (American Association of Retired Persons), which pay the difference in most instances between what is covered by Medicare and the actual cost of hospital care.

The subject of health insurance is complex. Older persons purchasing additional coverage should make sure that any health insurance policy is truly a supplement, not a duplication, and that the policy is written by a reputable company. One of the major complaints reported to insurance departments by the elderly is the refusal of their insurance company to pay a claim on the ground that it involves a "preexisting condition".

3. Property Insurance. This, too, is a broad subject; and, again, older persons should periodically review their property insurance coverages, especially in these days of rapid inflation. At the same time, perhaps even a prized possession has decreased in value; therefore, the premium may be too high and should be re-evaluated.

The following paragraphs are paraphrases from a lecture delivered by Frank J. Schwentker, former Lecturer on Insurance, School of Business Administration, University of North Carolina. He covers this topic well.

Insurance, from its beginning, was first compartmentalized, with separate policies for each "peril". By the end of the 1940's, multiple-line laws permitted companies to write all insurance except life; and by the mid-fifties, the "Home-owner's contract" was developed. It has been revised several times and is now written in five forms which differ mainly in the hazards and perils covered. With these five forms it is possible to get broader coverage than with individual contracts, and at a saving of about 25%. The amount of insurance on the dwelling automatically determines the insurance on the other coverages based on the percentages and amounts shown in the following table.

Coverage	A-Dwelling	Form 1 covers: Fire, theft, vandalism and malicious mischief, liability and nine other perils such as windstorm, hail, explosion, etc.
"	B-Detached Buildings (10%)	Form 2 is the same but with 8 additional perils covered.
"	C-Personal Property (40%)*	Form 3 covers building only, against all-risks, with a few exclusions.
"	D-Additional Living Expenses (10% on Form 1, 20% on all other Forms)	Form 4 is the same as Form 2 but for tenants, and covers contents of dwelling only.
"	E-Personal liability \$10,000**	Form 5, with a minimum of \$15,000, covers all-risks, with a few exclusions.
"	F-Medical payments \$500**	
"	G-Damage to property of others \$250	

* 50% on Form 5

** On Form 5, E is \$25,000 and F is \$1,000. Liability limits can be increased by payment of an additional premium.

Forms 1, 2 and 3 have an \$8,000 minimum. Form 1 covers the basic items for which most people want protection. Form 2 covers eight additional perils and is the most popular form. Form 3 is designed for those who wish to cover only the building, not its contents. Form 4 is designed for a tenant; it omits coverages A and B, has a \$4,000 minimum, and includes the same perils as Form 2. Form 5 is a luxury type coverage, with a \$15,000 minimum, covering all risks, except for a few exclusions. Losses will be settled on a replacement cost basis, rather than an actual cash value basis, provided the insurance carried on the dwelling is equal to 80% or more of the replacement cost. Professor Schwentker concluded his presentation by reminding his audience that all persons should by all means read carefully their insurance policies.

4. Automobile Insurance. On this topic, Professor Schwentker had this to say.

In North Carolina, automobile insurance is compulsory. The normal policy covers \$10,000/\$20,000 for bodily injury, and \$5000 for property damage, but many people increase considerably the ten-twenty liability minimum. All liability policies are based on the common law interpretation of "Negligence"; i.e., the prudent man's rule. Negligence is "failure to do or not to do what a prudent and reasonable man would do in the same circumstances". To collect on insurance, you must prove negligence on the part of the person being sued, and no negligence on your own part. If sued, your best defense is to prove "contributory negligence". In measuring damage, you are entitled to collect for "economic loss", medical expenses, as well as damage to a vehicle, and for other out-of-pocket expenses. Juries often add an

additional amount for "pain and suffering". For this there is no objective measure, with the result that as the amounts of settlements rise, so do the costs of insurance. Moreover, many lawyers take such suits on a contingency fee basis, a practice which has increased unreasonably the amounts asked for in damage suits.

If sued as a result of an accident, the insurance company will pay all court costs, attorney fees, and other costs of defense. This "promise to defend" is a valuable part of your policy. The Family Automobile Policy is the most common form used on private passenger cars. It protects the named insured and spouse, any relative living in the same household, and any other person driving your car with your permission. It also covers a replacement car, a temporary substitute car, and a newly acquired car, provided all cars owned are insured by the same company.

You may also purchase medical payment insurance, and comprehensive coverage for collision, with deductible feature, and with an uninsured driver supplement. In North Carolina, in spite of the law, about 40,000 uninsured drivers are on the highways. Professor Schwentker also discussed "no-fault" insurance, which is in essence "direct damage" insurance, in which the insurer's company pays the damage cost regardless of who is at fault. Some states require "no-fault" coverage and some do not. The North Carolina Legislature has considered the enactment of a "no-fault" automobile insurance law, but thus far it has not been done.

F. Suggested Procedures, Competency Criteria, and Time Allocations for Session Five

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
1. Brief review of subjects previously covered	1. Concise reminder by group leader of salient subjects covered in previous sessions	No measurement needed	5
2. To inform trainee participants of those categories of personal or family income that are taxable and non-taxable at federal and state levels	1. Review and discuss Table 14	See below	5
3. To provide trainee participants with a comprehensive but not exhaustive check-list of allowable deductions when calculating one's federal and state income taxes	1. Introductory remarks on text by group leader 2. Review and discuss Table 16	See below	10
4. To point out the major differences between N.C. and federal income tax regulations affecting retirees	1. Review and discuss Table 17	See below	5
5. To acquaint trainee with useful information covering optional disposition of life insurance policies when one reaches retirement age	1. Review of subject by group leader 2. Discussion	See below	5
6. To acquaint trainee with important factors to consider in deciding how to have adequate but not excessive health insurance during	1. Review of subject by group leader 2. Discussion	See below	10

Specific Objectives	Procedures	Competency Criteria	Time (Min.)
6. (cont'd.) retirement (with special emphasis on Medicare and what is needed to supplement Medicare)			
7. To acquaint trainees with information, useful to retirees, about property and automobile insurance	1. Review of subject by group leader	See below	10
8. Relaxation and casual discussion	COFFEE BREAK	No measurement needed	10
9. To permit participants to test their knowledge and understanding of the major points covered during the first hour of SESSION FIVE	1. A self-instructional test on taxes and insurance for retired senior citizens (turn to next page)	The test, as a learning exercise	30
	2. Each participant will grade his own test, using the "key" which appears as Appendix A. Record only the number of errors.	Grade received	15
	3. By a show of hands group leader will openly develop summary of number of errors made.		
	4. Discussion of test results	Knowledge and understanding as evidenced by the discussion	15
		Total Minutes	120

Self-Instructional Test on Taxes and
Insurance for Retired Senior Citizens

Instructions: The following test items represent a variety of types of questions. They include "True-False" questions, multiple-choice items, and the completion of open-ended sentences, or the filling out of blanks to provide correct answers to specified questions. The mode of answering each question will be obvious from the nature of the question. In test questions which do not specifically mention federal or state tax regulations, you may assume that it refers to both levels.

1. John Jones, 68, inherits \$10,000. This inherited income is taxable by the federal government (IRS) as ordinary income. True___ False___
2. Social Security income is not taxable by either the federal or state government. True___ False___
3. The proceeds from a life insurance policy are taxable by IRS, if the premiums for the policy had been paid for by your employer. True___ False___
4. Income from a private pension plan, paid for entirely by your employer, is taxable income. True___ False___
5. Pensions from the Veteran's Administration are non-taxable. True___ False___
6. The federal government does not exempt interest income received from state or local bonds. True___ False___
7. If you are over 65, income received as interest from bank deposits, credit unions, and savings and loan associations is non-taxable income. True___ False___
8. As unreasonable as it would appear, many older Americans over-pay their income taxes because they are unaware of their allowable deductions. True___ False___
9. Because the income of retirees is almost always reduced below that of prior years, it is better for them to take the standard deduction than to bother with itemizing all possible deductions. True___ False___
10. If you failed to deduct a permissible deduction when you filed your Federal Income Tax return, and did not discover your failure until 3½ years later, you may still reclaim the deduction by filing an amended return. True___ False___

11. The maximum federal deduction for medical and dental insurance is:
- a. \$300 _____
 - b. 150 _____
 - c. 200 _____
 - d. There is no limit _____
12. For federal income tax purposes, medical and dental expenses are deductible to the extent that they exceed _____ % of a taxpayer's adjusted gross income.
13. The services of a chiroprapist are not deductible as a medical expense. True___ False___
14. Alcoholic beverages, even if prescribed by a physician for medical purposes, are not deductible as a medical expense. True___ False___
15. The cost of home health services are not deductible because a nurse or doctor is not always present. True___ False___
16. The cost of vaccines are not deductible because the persons taking them are not really ill. True___ False___
17. Since Social Security income is tax deductible, you may not include this income in calculating adjusted gross income for the purpose of figuring sales tax, by use of the sales tax tables. True___ False___
18. For state income tax purposes, all contributions to approved private, non-profit agencies are deductible, regardless of the total amount of contributions. True___ False___
19. The cost of goods or tickets purchased from a charitable organization, and which are purchased for a charitable purpose, are considered as a contribution, and are therefore fully deductible. True___ False___
20. Out-of-pocket expenses (e.g. postage, stationery, or travel expenses) while rendering volunteer services for a charitable organization are deductible. True___ False___
21. The penalty for the prepayment of a mortgage is not considered as interest, and therefore is not deductible. True___ False___
22. The amount of federal tax credit for a political contribution is one-half of the contribution, with a limit of \$500 for couples filing jointly. True___ False___

23. Just because you reach age 65 does not mean that you can suddenly claim an additional exemption for yourself. True___ False___

24. Regardless of the sale price of your residence, and regardless of your age, gains or profits made on the sale are bonafide income and, therefore, fully subject to federal income tax. True___ False___

25. The "Retirement Income Credit" provision of the federal income tax regulations means that any retiree, on a pension, and with \$600 or more in earned income, is entitled to a 15% "Retirement income credit" on his adjusted gross income from all sources. True___ False___

26. Income tax benefits are not always the same at state and federal levels. By placing a "yes" or "no" in the appropriate blanks below, please indicate which benefits are allowed at the state and federal levels.

<u>Category of Benefit</u>	<u>Allowed by</u>	
	<u>North Carolina</u>	<u>Fed. Govt.</u>
a. Capital gains benefit	_____	_____
b. Income averaging	_____	_____
c. Gain from sale of residence, if over 65	_____	_____
d. Low income allowance	_____	_____
e. Additional exemption for persons over 65	_____	_____
f. Retirement Income Credit	_____	_____
g. Deduction for gasoline tax	_____	_____
h. Deduction of state income tax	_____	_____
i. Medical expense deduction in excess of 5% of adjusted gross income	_____	_____
j. Deduction or tax credit for political contributions	_____	_____

27. Because of reduced income, one's need for life insurance is even greater in retirement years than before. True___ False___

28. Medicare health insurance is available to all persons who are entitled to Social Security and who are _____ 62 years of age, _____ 65 years of age.

29. There are no monthly premiums for the "hospital benefits" of Medicare if you are receiving Social Security. True___ False___

30. Part B of Medicare (for medical insurance) is optional, and there is a monthly premium for it. True___ False___

31. If you are not entitled to the "hospital insurance" of Medicare (Part A), you may take out such insurance for a monthly premium of _____\$24, _____\$30, _____\$36, or _____\$42.
32. Medicare pays the costs of so much of your medical expenses, that it is a waste of money to carry supplemental medical insurance. True___ False___
33. It is more economical to purchase property insurance through a "home-owner's policy" which combines several categories of insurance (e.g. dwellings, detached buildings, personal liability, and damage to the property of others) than to insure each of these separately. True___ False___
34. Automobile insurance is compulsory only for persons 65 and over. True___ False___
35. If sued as a result of an automobile accident, the insurance company will pay all court costs, attorney fees, and other costs of defense. True___ False___

See Appendix "A" for answers.

APPENDICES

APPENDIX A

Answers to Self-Instructional Test on Taxes and Insurance for Retired Senior Citizens

1. False, 2. True, 3. False, 4. True, 5. True, 6. False,
7. False, 8. True, 9. False, 10. False, 11. \$150, 12. 3%
13. False, 14. False, 15. False, 16. False, 17. False,
18. False, 19. False, 20. True, 21. False, 22. False,
23. False, 24. False, 25. False.

26.	<u>North Carolina</u>	<u>Federal Govt.</u>
a.	No	Yes
b.	No	Yes
c.	No	Yes
d.	No	Yes
e.	No	Yes
f.	No	Yes
g.	No	Yes
h.	No	Yes
i.	Yes	No
j.	No	Yes

27. False, 28. 65, 29. True, 30. True, 31. \$36, 32. False,
33. True, 34. False, 35. True.